FINANCIAL TIMES

Asia in Crisis

How the dominoes started to fall

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New media empire

America Online grows under Steve Case

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World Business Newspaper http://www.FT.com MONDAY JANUARY 12 1998

WORLD NEWS

Silver market 'manipulation' may lead to legal action

US lawyers are preparing legal action alleging that the silver market is being manipulated to drive prices higher, according to commodity fund manager Martin Armstrong, who is also director of Princeton Economics Institute. Mr Armstrong, who is considering a request to act as an expert witness for the plaintiffs, believes someone is trying to manipulate the market. Page 16

Jospin defends tough action French prime minister Lionel Jospin defended the need for the state to exercise its "authority" after sending in police to remove protesters from unemployment centres. Page 16

Loyalists admit killing Northern Ireland's Protestant Loyalist Volunteer Force claimed it murdered a Catholic relative of Sinn Féin president Gerry Adams. Multi-party talks on the future of the province are due to resume today. Page 5; Editorial comment, Page 15

Turkish police hold 1,300 Turkish police arrested more than 1,300 people in a continuing effort to stem the flow of illegal migrants to western Europe. More than 1,000 of them were said to be non-Turkish.

Human clones ban urged Republican House majority leader Richard Armey backed President Bill Clinton's call for human cloning to be banned for at least five years. Richard Seed, the Chicago physicist who plans to attempt the procedure, said he would move offshore if a US ban went ahead. Page 16; Editorial comment, Page 15

Algerian violence continues Algeria's banned Islamic Salvation Front joined mounting calls for an inquiry into massacres as the Algerian security forces said 11 people had their throats cut by terrorists at the weekend.

Cautious US response to Iran The White House cautiously reopened the door to direct contacts with Iran in its first formal response to last week's television interview by Iranian president Mohammad Khatami. Page 16

Iraq protests at arms team Iraq said a new team of UN arms inspectors was unbalanced because it had too many American and British experts in it.

24 die in Pakistan shooting Gunmen killed at least 22 people when they fired on a memorial service at a Shiite Muslim graveyard in Lahore, Pakistan. Police suspect a militant Sunni group. Karachi nervous, Page 3

China earthquake relief China rushed aid to villages flattened by an earthquake near the Great Wall that left tens of thousands of people homeless. China's state-run news agency said 11,439 were injured and 50 killed.

Cubans go to polls Fidel Castro's government appealed for a massive turnout to support socialism as Cubans voted in one-party general elections.

Israeli court rules on torture Israel's high court cleared the way for the security service to go on using methods that Palestinian prisoners complain are torture. It ruled Shin Bet could use physical pressure while interrogating a Palestinian suspect.

Sonia Gandhi on the stump Sonia Gandhi launched the election campaign for her late husband Rajiv Gandhi's beleaguered Congress party in Sriperumbudur, the southern Indian town where he was murdered. Page 4

BUSINESS NEWS

Three UK cable operators in venture talks with US network

The UK's three largest cable companies are in talks with At Home Network, US provider of high-speed internet access by cable, to establish a service in the UK. Cable and Wireless Communications, NTL and Telewest have discussed setting up a joint venture company. Page 17

First Pacific, one of Asia's biggest conglomerates, unveiled a $2bn asset-disposal programme to bolster its balance sheet and restore investor confidence, after shares plunged 43 per cent in the regional crisis. Page 17

BankBoston, one of the largest US banks, will shut operations in Paris and Frankfurt to concentrate on growth in eastern Europe, Latin America and Asia. It will consolidate its European presence in London. Page 18

British Sky Broadcasting, the pay television company, faces having to provide finance to start production of set-top boxes for its planned 200-channel digital service if it is to launch on time in the spring. Page 5

George Soros called for urgent tax reforms in Russia, where his companies have invested about $2.5bn. Tax arrears are a leading cause of falling tax revenues in Russia. Page 2

Iberia, the Spanish state air carrier, reached agreement to operate almost a third of the fleet owned by its domestic rival Air Europa. The deal is likely to be questioned by European Union officials. Page 2

Boeing is to manufacture a new 100-seat regional jet originally designed by McDonnell Douglas. The engines are being built by Rolls-Royce of the UK and BMW of Germany. Page 18

Lloyds TSB, the UK banking group, is expected to sell Black Horse Agencies, its real estate arm, following a review of the business. Page 18

Assicurazioni Generali, Italy's largest insurer, received the go-ahead from shareholders to issue new equity and debt to finance its L9,700bn ($5.42bn) acquisition of an 80 per cent stake in AMB, the German insurance group. Page 18

Oil companies are setting up outposts in Iran, hoping for a breakthrough in US-Iranian relations. British Petroleum has opened a Tehran office and Royal Dutch-Shell has struck a pact with the state oil company. Page 17; Oil revenue shortfall, Page 3; Editorial Comment, Page 15

Satellite television plans for 250m Bengali speakers in Bangladesh and eastern India had a setback as the AsiaSat 3 satellite went astray. Page 4

Venezuela's central bank is expected to announce its new exchange rate for the bolivar after pressure on the currency last week. Page 3

Watmough's, UK printer fighting a £188m (US$306m) bid from Quebecor of Canada, accused it of "misunderstanding" the UK market. Page 18

Frank Stronach, the Canadian entrepreneur, has agreed to buy control of Steyr Daimler Puch, the Austrian vehicle manufacturer, from Creditanstalt, in a deal which could be worth more than Sch4bn ($312m). Page 18

Merita, the Finnish bank merging with Nordbanken of Sweden, said it would make an exceptional gain of FM1.24bn ($225m) on its 1997 results, following a refund from its group pension fund. Page 18

US and IMF send in top team to ease Asian crisis

Senior officials fly to Jakarta amid fears for regional stability

By Sander Thoenes in Jakarta

Senior officials of the US government and International Monetary Fund will mount an emergency effort this week to calm economic turmoil, encourage reform and boost political stability in Indonesia and other south-east Asian countries.

Stanley Fischer, the IMF's first deputy managing director, reported progress yesterday after holding three hours of talks with Indonesian officials on the $43bn IMF-led rescue package agreed last October with President Suharto's government.

Larry Summers, deputy US treasury secretary, is due to arrive in Jakarta today, followed later in the week by the IMF managing director, Michel Camdessus, and the US defence secretary, William Cohen.

On the eve of their arrival, President Suharto sought to counter international concern about his commitment to budgetary discipline by announcing that 15 major infrastructure projects would be delayed or reviewed.

The projects delayed or put under review include eight power plants, an airport and an office tower. Mr Suharto's relatives and friends are involved in several of the projects, which he first put on hold last September – before reviving them, to World Bank annoyance.

One such project is a $1.6bn power plant sponsored by Hopewell Holdings and one of Mr Suharto's daughters. Unocal's $570m geothermal plant, sponsored by a friend of the president, is also back on hold, as is a $3.2bn refinery in East Java in which Stone & Webster Engineering of the US was a contractor.

The US and IMF want the 76-year-old president to take urgent measures to restructure the economy of Indonesia, where the rupiah has collapsed and private companies hold $80bn in foreign currency debt, most of it short-term and unhedged.

An Indonesian brokerage, Pentasena Securities, estimated last week that only 22 of the 282 companies listed on the Jakarta stock exchange were financially viable. "It is one minute to 12," said Cees de Koning, a Jakarta-based analyst at ABN Amro, calculating that $59bn of the country's corporate foreign debt would fall due this year.

However the IMF's Stanley Fischer, without giving details, said: "We are making progress. This is only the beginning. We are discussing the entire reform programme and how to move ahead with it."

In a sign that Indonesia's crisis could have wide-ranging political repercussions, opposition activist Megawati Sukarnoputri declared on Saturday that she wanted to replace Mr Suharto as president after his term ends in March.

"Will we continue to let the nation be directed and guided by a small dynasty of greedy rulers who alone will benefit from the great assets of our country?" Ms Megawati asked 1,000 cheering supporters in her garden.

Riots engulfed Jakarta last year when Mr Suharto engineered Ms Megawati's removal as leader of the Democratic Party, smallest party in the legislature.

The US government is underlining its concern at the implications of the Asian crisis by sending experts from the State Department, National Security Council and Pentagon as well as the Treasury to the region.

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End of Asian miracle, Page 6
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Hedge funds prosper, Page 17
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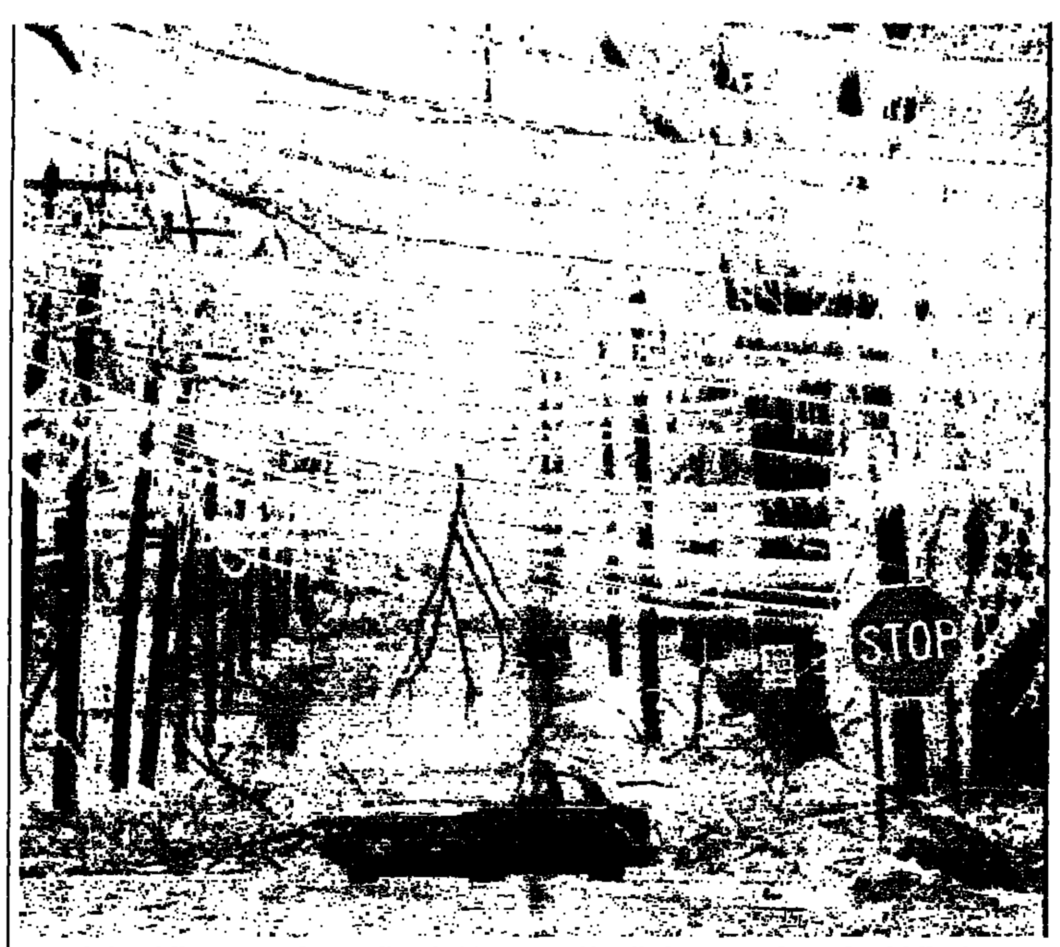

A car dodges fallen trees and power lines in Watertown, New York state, at the weekend following a vast ice storm which forced President Bill Clinton to declare a federal state of emergency for a five-county area of the state. The storm system caused floods across the US south and spread thick ice across the north east and the eastern third of Canada, where 11 deaths had been blamed on the storm. Picture: AP

French stock market may opt for public listing by 1999

SBF flotation would help meet rising computer costs

By Andrew Jack in Paris

The French stock exchange is considering selling shares to outside investors and seeking a flotation in a move that could take place as soon as 1999.

Executives at the Société des Bourses Françaises (SBF) in Paris are in the early stages of discussions about the possible reform at a time of growing competition between European exchanges.

A stock market listing would allow the organisation to raise additional money to meet the ever-expanding funding requirements for investment in computer technology.

SBF officials considering the action also argue that a listing would give executives and employees at the organisation the possibility of receiving performance-related pay in the form of stock options. A period of intense restructuring is taking place at the SBF, which at the end of last year concluded a "takeover" of the Matif, the French derivatives market. Options, futures, commodities and cash markets are all now controlled by the same entity.

The SBF is in talks with Germany's combined cash and derivatives markets in Frankfurt about closer links. These are likely to involve the development of joint products and more tightly integrated trading and settlement systems during the coming months.

The SBF would not be the first stock exchange to undertake such reforms. The Stockholm exchange privatised and incorporated in 1993, although it is not listed.

Members of the Australian stock exchange voted for a demutualisation in late 1996 and the Amsterdam stock exchange has been quoted since last year.

In the UK, the treasury select committee of parliament concluded last March that the London Stock Exchange could be incorporated, although its findings were met with scepticism as a "diversion" by executives at the time.

The officials of some exchanges, as well as others within the securities industry, have raised concerns about the implications for the conduct of regulation of the stock markets by a privately held – and possibly monopolistic – company.

In France, however, the Commission des Opérations de Bourse and the recently created Conseil des Marchés Financiers, the two stock market watchdogs, are already independent of the SBF.

Market calm urged as HK faces critical week

By John Ridding in Hong Kong

Hong Kong's government urged calm ahead of stock market trading today amid fears that the crisis at Peregrine, the securities company, and regional economic turmoil will shake confidence in the territory.

Donald Tsang, financial secretary, said investors should be "rational" and that the crisis at Peregrine did not pose a systemic risk. He earlier rejected suggestions that Hong Kong could be forced to adjust its currency peg to the US dollar, the lynch-pin of its financial system.

"Once you loosen it, it is gone forever, like virginity," he said, referring to the sharp devaluations which have spread across the region.

Mr Tsang's comments came ahead of what could prove a critical week for Hong Kong, with Friday's announcement that rescue talks at Peregrine had collapsed.

Sources at Peregrine said talks started yesterday with the company's bankers, which include HSBC and First Chicago, and that liquidation procedures could start as soon as today. However, the group said talks

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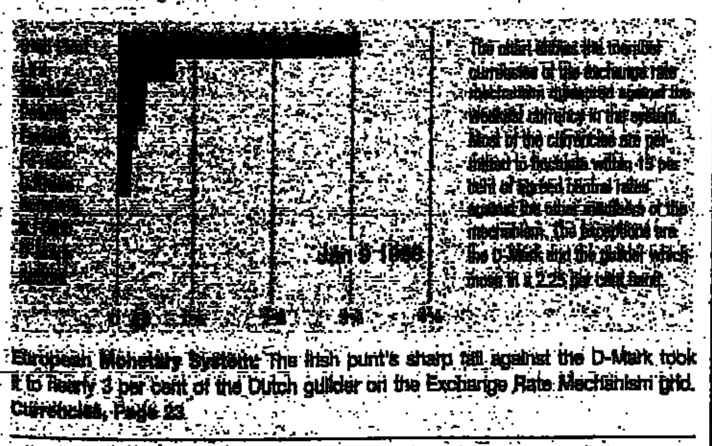

European Monetary System: The Irish punt's sharp fall against the D-Mark took it to nearly 3 per cent of the Dutch guilder on the Exchange Rate Mechanism grid. Currencies, Page 23

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Santer warns on commissioner's role

By Lionel Barber in Brussels

A surprise decision by the European Commission's top monetary official to run for political office in France is rapidly turning into a test of authority of Jacques Santer, Commission president.

Mr Santer has warned Yves-Thibault de Silguy that he will have to choose between his present job overseeing the single currency and future office in his native Brittany – assuming his candidacy in local French elections in March proves successful.

But Mr de Silguy is turning a deaf ear and President Jacques Chirac has intervened on his behalf. Mr Chirac apparently views the commissioner as crucial to his Gaullist party holding Brittany in the 2002 presidential election.

Mr de Silguy's ambitions present a dilemma for the Commission as it struggles to redefine its role after the activist era of Jacques Delors, former president. Commission veterans are determined to defend the tradition that EU commissioners, now numbering 20, are independent actors standing above the national political fray, even though they are originally appointed by national governments.

But newcomers such as Mr de Silguy, 49, a former adviser to Gaullist prime ministers, argue that a local political career can counter criticism that the Commission is a remote bureaucracy. "I can defend Europe on the ground," said Mr de Silguy in an interview last week, "in my opinion there is no incompatibility with the treaty".

The English text of Article 157, paragraph two, of the Maastricht treaty says: "The Members of the Commission may not, during their term in office, engage in any other occupation, whether gainful or not." But the French version is less categorical, stating merely that members of the Commission are not allowed to engage in "any professional activity".

Mr de Silguy noted that Edith Cresson, his fellow French commissioner, served as mayor of the small town of Chatellerault and sought re-election in 1995 after Mr Santer took office. Mrs Cresson stepped down only late last year.

He added that, unlike Germany's powerful regions or Länder, France's regional councils handle strictly local issues such as road works, high schools, culture and jobs programmes. Brittany's annual budget was only FFr3bn ($500m) – less than 2 per cent of the EU budget – and he could handle his duties at weekends.

Commission officials say Mr de Silguy's ambitions raises potential conflicts of interest.

First, if Mr de Silguy is chosen as a candidate for Brittany's regional council, he would be obliged to campaign between mid-February and mid-March – a busy period when the Commission is preparing its recommendations on which countries qualify for economic and monetary union (Emu).

Secondly, if he loses the regional election, he risks weakening his authority as a commissioner. If he wins and is subsequently asked to resign his Brussels job against his will, he risks hurting his career in France.

Finally, Mr de Silguy's candidacy runs counter to the leftwing French government's efforts to abolish the tradition of "dual mandates", whereby politicians can hold national office and local mayoralties.

US eases path to links with Iran

By Nicholas Timmins, Bruce Clark and Nancy Dunn in Washington

Sandy Berger, President Bill Clinton's national security adviser, yesterday re-opened the door to direct contacts between the US and Iran, but with extreme caution.

In the US administration's first formal response to a television interview given by Mohammad Khatami last week, Mr Berger described the Iranian president's statements as "positive developments". This new tone "is something we welcome", he said. "We would like to have a better relationship with Iran." But he said there were impediments to that relationship. These included conduct by Iran which threatened both the region and the larger world – "support for terrorism, violent opposition to the Middle East peace process, development of weapons of mass destruction".

The way forward, he suggested, was a direct dialogue with the government of Iran in which all issues were put on the table without pre-conditions. The US, for example, would be willing to discuss releasing Iran's frozen assets and easing restrictions on its citizens entering the US.

But he warned that, in the months since President Khatami had taken office, there had yet to be a significant change as opposed to rhetoric in Iran's behaviour. "There's obviously a contested vision of the future of Iran. There's been more change, I think, in Iran's internal behaviour and its degree of tolerance than there has been in its external behaviour."

His comments came as the US administration ponders whether to impose sanctions on Iran's trading partners. Supporters of action want sanctions against Total of France, Gazprom of Russia and Petronas of Malaysia over a gas contract signed with Iran and against Russian aerospace companies which have allegedly helped Iran build ballistic missiles.

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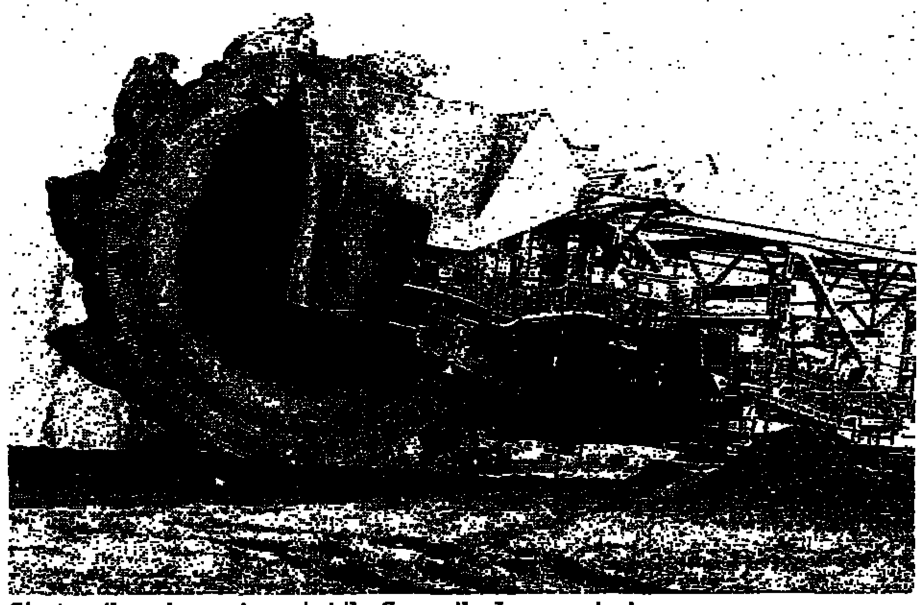
Red-green coalition digging a hole

A huge mining project is opening political rifts in Germany



Giant earthmoving equipment at the Garzweiler I open-cast mine *Wolfgang von Brauchitsch*

It would take the giant excavators until the middle of next century to rip a 48 sq km chunk out of north-west Germany to a depth of 200m. It would take seven decades for the hole left by the open-cast mine to flood and form the country's second largest lake. But this enormous project is already leaving political scars.

The controversial plans now being approved for a massive extension of the Garzweiler brown coal or lignite mine in North Rhine-Westphalia could tear apart the state's governing coalition of Greens and Social Democrats this week.

At best, the culmination of a long-festering row between environmentalists and the SPD will leave a polluting cloud over relations between the two parties – which at national level are aspiring to form a "red-green" coalition after the general election on September 27.

North Rhine-Westphalia's Greens gather next Saturday in Jüchen, on the edge of existing Garzweiler operations, to decide whether to quit the government and pave the way for early state elections.

"It is a crucial dispute over energy and economic policy," says Bärbel Höhn, a Green and the state's environment minister. "Garzweiler II would commit not only North Rhine-Westphalia but the whole of Germany to an energy policy of the past – a traditional policy supporting brown coal – for another 50 years."

The row has highlighted the incompatibility of the Greens' programme with the local SPD's industrial policy, which combines trade unions, business and government around a state economy focused largely on energy production and coal in particular. The strategic significance of the debate goes beyond the state borders. Brown coal generates a third of Germany's electricity – and most comes from North Rhine-Westphalia.

"Continuing electricity production from brown coal in the Rhine region is for us a economic and political necessity that makes us a step more independent from the price, exchange rate and riskiness of the world market," says Wolfgang Clement, state economics minister. It would also secure 50,000 jobs.

But the SPD is no longer negotiating from a position of strength. Johannes Rau, North Rhine-Westphalia's veteran SPD prime minister, had an absolute majority for 15 years until elections in the summer of 1995 when he was forced into coalition with the Greens.

Environmentalists are alarmed at Garzweiler II's impact on the volume of CO_2 emissions – brown coal is regarded as a particularly dirty coal – as well as the impact on local nature protection zones. Disruption of water levels will extend into Holland. Greens also want a focus on renewable energy sources and energy saving. The DM20bn ($11bn) planned investment by RWE, the energy conglomerate, as part of the Garzweiler project in upgrading power stations "is investment in the wrong technology", says Mrs Höhn.

Saturday's Green conference was called after an outline plan for Garzweiler II was approved in December. Mrs Höhn says maintaining the coalition "is possible and sensible" because the approvals process is not yet completed. Using her powers as environment minister she has drawn up a "five-point programme" aimed at blocking the scheme if possible during the approval process required by federal laws on water supplies.

Even so it is far from clear if Mrs Höhn – regarded as a leftwinger within her party's ranks – can win the day. Some Green MPs in North Rhine-Westphalia's parliament dismiss her hopes of blocking Garzweiler II under the approvals process as wishful thinking.

The internal Green debate raises questions about the party's eagerness for office. "Red-green" in North Rhine Westphalia has proved a disappointment to many of its members.

Many so-called Green "realos" would like to quit the state government; even if they are resigned to Garzweiler II they have problems with the state's plans for promoting Düsseldorf airport, or its transport policy.

On the SPD's side, the row is not only a threat to Mr Rau and Mr Clement in North Rhine-Westphalia. It is also a bad omen for Gerhard Schröder, Social Democratic prime minister of neighbouring Lower Saxony and possible candidate for chancellor in September's federal elections, who also casts himself as a pro-business Social Democrat.

Many Greens would rather be in government with the more traditionalist wing of the SPD led by Oskar Lafontaine, Saarland's prime minister and the alternative to Mr Schröder as the SPD's chancellor candidate. Mr Lafontaine – although less electorally popular than Mr Schröder – is regarded by Greens as more likely to embrace higher taxes on energy use.

"North Rhine-Westphalia is a test case for Bonn," says Mrs Höhn. "But if we had a red-green coalition in Bonn which agreed on ecological tax reforms, that would have an impact on North Rhine-Westphalia. If CO_2 emissions were taxed, Garzweiler II would no longer pay."

Ralph Atkins

EU may question Iberia-Europa deal

Iberia, Spain's state-owned carrier, has reached agreement to operate almost a third of the fleet owned by Air Europa, its main domestic rival, **Tom Burns reports from Madrid.** The surprise association between the two airlines was a response to foreign competition and is likely to be questioned by European Union officials.

The deal involves a franchising agreement between the two airlines that will allow Iberia to take over 11 of Air Europa's 34 aircraft, together with their crews, and the slots that the rival carrier operates out of Spanish airports for domestic, European and long haul flights.

Angel Mullor, Iberia's general manager, said the agreement aimed to hold at bay "European predators" who were making inroads on the domestic market. He cited British Airways, which had increased its business between Spain and Europe by 12.49 per cent between January and October last year.

The two companies said the judicial framework of the deal, together with the necessary official approvals, would be worked out "in the coming months". Mr Mullor stressed it was a "commercial agreement" that did not envisage either a merger or a cross share arrangement.

Air Europa, a private company linked to a Spanish travel and leisure group, has spent the past three years pioneering competition in the national carrier's home turf following the deregulation of the airline sector.

Juan Sanz, Air Europa's general manager, said his company's 12 month profits in October last year had slipped to Pta 1.2bn ($7.8m) from Pta1.6bn in October 1996.

Dutch deny threat on Italy and Emu

Italian efforts to join the first wave of countries in European monetary union have provoked new tensions among EU states, write Paul Betts in Milan and Gordon Cramb in Amsterdam. The Netherlands was yesterday obliged to deny that it was threatening to pull out of the single currency project if Italy was included in the initial group.

Wim Kok, the prime minister, last night described as totally unfounded a report in the German magazine Der Spiegel that his government was considering remaining outside Emu if an EU summit on May 2 approved Italy's inclusion.

But he offered no specific endorsement of the Italian bid and officials in The Hague would say only that the Dutch had not changed position on the issue. This meant that eligibility would be determined at the May meeting on the basis of last year's economic performance.

The office of Romano Prodi, Italy's prime minister, said Italy's case was backed by its economic figures with a government deficit to gross domestic product ratio of less than 3 per cent last year.

A Dutch withdrawal would be viewed as extremely unlikely unless Germany, the Netherlands' biggest trading partner, also stayed out.

Der Spiegel based its conclusions in part on comments attributed to Frits Bolkestein, parliamentary leader of the VVD, one of three parties in the centre-left Dutch coalition.

The Italian government has been increasingly euphoric recently over meeting the Emu requirements, a view shared by the financial markets which have sent Italian shares to all-time highs and government bond yields to record lows.

Soros urges Russia to reform taxation

By Victoria Griffith in Boston

George Soros, the billionaire financier whose companies have invested around $2.5bn in Russia, probably more than any other individual or institution, sounded alarm bells about the country at the weekend.

Speaking at a Harvard University conference he said: "The $5bn or so that Russia has to sell in equities in 1998 may keep the wolf from the door, but not for long, especially with spillover from the Asian crisis."

Mr Soros called for urgent tax reforms at the conference only days after Mikhail Motorin, Russia'a deputy finance minister in charge of tax reform, said the code would not be implemented in full until 1999 as it needed further amendments.

Tax arrears are now a major cause of falling federal tax revenues in Russia. There are now 250 enterprises in the country that each owe more than $17m in taxes, according to Marcelo Selowsky, chief economist for Europe and Central Asia at the World Bank. Those debts alone total at least $4bn, or 1 per cent of GDP. At the same time, the fiscal deficit is ballooning. In 1997, government expenditure amounted to 18.3 per cent of GDP while tax revenue was just 10.8 per cent.

US officials are concerned about the growing practice of paying taxes by barter, rather than cash. Nearly 16 per cent of tax collections are now remitted in barter form, according the International Monetary Fund.

"It is critical to end the practice of permitting non-monetary tax payments," said Stanley Fischer, deputy managing director at the Fund. Fischer, who was scheduled to speak at the Russia conference but was tied up with the negotiations in Indonesia, delivered his remarks by proxy.

However, Russia's Minister of Economics, Yakov Urinson also speaking at the conference, pointed to the progress his country has made in putting its economic house in order. In 1997, it posted the first growth in its GDP – albeit slight, at 0.4 per cent, since the fall of the communist regime.

Last Thursday, the IMF gave Russia a vote of confidence by disbursing a previously delayed $7m tranche of its extended fund facility. However, Mr Urinson lamented the low rate of foreign direct investment, which is just a fraction of the money going into China.

This is unlikely to pick up without meaningful fiscal reform. "Last year, the country pulled through at the largesse of the international financial markets," said Mr Soros. "With the crisis in Asia, that music has stopped, and Russia is under pressure."

NEWS DIGEST

Papal threat over Cuba visit

The Vatican threatened to cancel Pope John Paul II's historic visit to Cuba later this month after an electronic bugging device was discovered in a room where the Pope was expected to rest during his tour. The Vatican yesterday refused to comment on the incident reported on Saturday by El Pais, the Spanish daily newspaper. But there was unofficial confirmation in Rome that a KGB-style bugging device had been found in October and that the Holy See had considered cancelling the first papal visit to Cuba from January 21 to January 25. The Cuban authorities told the Vatican the device was a relic of the Battista regime which was overthrown by President Fidel Castro's revolution more than 39 years ago.

President Castro's decision to revive the Christmas festivities this year for the first time in Cuba since 1968 was also seen as a goodwill gesture to prevent the risk of the visit being cancelled. The Cuban authorities have also agreed to the television broadcasting of the Pope's masses and guaranteed freedom of movement for the thousands of people expected during his visit.

The Pope's tour has been a high-risk affair for President Castro. It is seen as an opportunity for him to enhance his international standing and reduce his country's economic and political isolation. But the visit of the Polish Pope who played a role in the collapse of communism is also likely to put further pressure on one of the last bastions of old-style communism. *Paul Betts, Milan*

■ ISRAEL-IRAN

Inter-faith talks sought

Several prominent Israeli rabbis have forged indirect contacts with Iranian Moslem clerics in recent months in an attempt to launch a dialogue between spiritual leaders from the two enemy states, an Israeli rabbi said yesterday.

Rabbi Menachem Froman, an activist for Jewish-Islamic religious dialogue, said the rabbis were trying to pave the way for an inter-faith meeting, perhaps on Iranian soil, and one Moslem cleric had already expressed interest. "We believe it is possible to conduct a dialogue along religious lines and thereby bypass [Iran's] objection to meeting with official delegates of the state of Israel," he said.

Benjamin Netanyahu, Israeli prime minister, denied the Israeli government had authorised the rabbis to contact the Iranians. Rabbi Froman said a dialogue with Iran could only be secured if the Israeli government was not involved. Rabbi Froman, a settler from the occupied West Bank, has met many Islamic spiritual leaders and is regularly reported in the Palestinian media. Recently he met Sheikh Ahmed Yassin, the founder of Hamas, the Islamic resistance movement, after his release from an Israeli prison last October. *Avi Machlis, Jerusalem*

■ COSTA RICA

Intel boost for exports

Exports by Intel, the US microprocessor manufacturer, from its assembly plant in Costa Rica are expected to be worth $700m this year, producing more income than the country's traditional products such as bananas and coffee, Costa Rican president José María Figueres said.

The president, who was inaugurating construction at the weekend of a second Intel plant near San José, said the company's exports this year would equal 90 per cent of the annual income from Costa Rica's tourist industry, the most important earner of foreign currency. "It is a true revolution in the concept of the national added value that we can give to exports," said Mr Figueres. Intel is expected to begin exporting production from its first Costa Rican plant in March. The company is investing between $300m and $500m in Costa Rica and exports are expected to reach $3bn annually when the second plant goes into full operation in 1999. *James Wilson, Panama*

■ AUSTRIAN SOCIAL DEMOCRATS

Call for action on jobs

Austria's ruling Social Democratic party yesterday concluded a three-day conference in Salzburg with a call for structural labour market changes and macroeconomic policies in the European Union to combat unemployment. Chancellor Viktor Klima, the party chairman, said he would make employment his priority this year. In July Austria will take over the six-month rotating EU presidency and is expected to promote European policies to enhance full unemployment.

Mr Klima also called for EU harmonisation of tax issues and rejected calls for a big cut in non-wage costs to employers as a means to create jobs. The Social Democrats also signalled they would not support an Austrian application to join Nato, as their coalition partner, the People's party, was urging. *Eric Frey, Vienna*

■ SLOVAK CABINET

Finance minister replaced

Miroslav Maxon, head of the Slovak parliament's budget committee, is to replace Sergej Kozlik as finance minister next week, it was announced late last week.

Mr Kozlik, who has had a loyal if sometimes strained relationship with Prime Minister Vladimir Meciar, is to step down to concentrate more on his roles as deputy prime minister responsible for co-ordinating the economic ministries and deputy chairman of the ruling Movement for a Democratic Slovakia (HZDS) ahead of parliamentary elections due this autumn.

Mr Meciar has said the appointment of Mr Maxon, a former co-operative farm chairman and member of the tiny New Agrarian party on the HZDS electoral list, would be the last change in his government before the elections. Recent polls have shown that the opposition Slovak Democratic Coalition has opened up a double-figure lead over Mr Meciar's party. Slovak newspapers reported on Friday that Mr Meciar was considering forming a new Civic Understanding party to contest the elections. *Robert Anderson, Prague*

■ CHINA EARTHQUAKE

Thousands left homeless

An earthquake flattened villages near China's Great Wall yesterday, killing 47 people and leaving tens of thousands homeless, China's state-run media reported. The earthquake, measured at 6.2, toppled hundreds of houses – many of them built of mud and brick – across the Yan Mountains. Rescuers found the town of Zhangbei devastated and 20,000 families without homes, the Xinhua news agency said. *AP, Beijing*

NEWS: INTERNATIONAL

Asian tiger economies lose out to former communists in world rankings

Growth picks up in east Europe

WORLD GROWTH LEAGUE TABLE 1998

1	Bosnia	35.0
2	Albania	12.0
3	Georgia	10.0
4	Angola	9.5
5	China	8.0
6	Chile	7.6
7	Azerbaijan	7.0
8	Uganda	7.0
9	Ireland	6.9
10	Botswana	6.7
11	Vietnam	6.5
12	Burma	6.5
13	Taiwan	6.0
14	Kyrgyzstan	6.0
15	Tajikistan	6.0
16	Nicaragua	6.0
17	Jordan	6.0
18	Qatar	6.0
19	Yugoslavia	6.0
20	Venezuela	5.8

GDP growth figures in percentages. Source: EIU

By Richard Adams, Economics Staff

The former communist countries of Europe and Asia will replace the tiger economies of south-east Asia as the world's growth hot-spots, according to a report published today.

The Economist Intelligence Unit's forecast of global political and economic trends* predicts world growth will be 2.7 per cent during 1998.

Asia will be the slowest region of the world, with 2.4 per cent annual growth – half the growth the region experienced in 1996.

The formerly communist "transition economies" will expand by 4.1 per cent, compared with growth of 2.3 per cent last year and just 0.1 per cent in 1996. The EIU says GDP in those countries will accelerate at their fastest since the end of communism.

Former Eastern bloc countries provide six of the top 20 growth rates forecast for 1998. Bosnia tops the world growth league, with output expected to expand by 35 per cent. It is followed by Albania (12 per cent) and Georgia (10 per cent).

Asia provides three of the 20 slowest growing countries in the world, with Thailand, Japan and South Korea all suffering from the region's financial crisis.

"Although the evidence is not conclusive, previous currency crises suggest that the impact could be quite severe," the report says. But some Asian countries will continue to grow quickly. The EIU expects China, Burma, Vietnam and Taiwan to enjoy annual expansion of 6 per cent or higher.

Indonesia is expected to record its slowest rate of growth for a decade. "Slower overall growth will expose further weaknesses in the banking and property sectors. Weak external demand and shortages of working capital will hamper an export led recovery."

The slowdown in overall world growth – to 2.7 per cent from 3.1 per cent in 1996 and 1997 – will be caused by slower output in North America as well as Asia. US growth is forecast to reach 2.4 per cent this year, compared with 3.7 per cent last year, with worries of a stock market crash and falling productivity.

Slower global growth will bring lower inflation: 4.3 per cent in 1998, 0.8 percentage points lower than 1997.

The worst-performing economy is expected to be the former Soviet republic of Turkmenistan, whose economy may shrink by 2 per cent after a dramatic fall in gas exports to Russia.

**World Outlook 1998. The Economist Intelligence Unit, 15 Regent Street, London SW1Y 4LR, UK. +44 171 830 1000. Website: www.eiu.com.*

Indonesian delays, Page 4

Iran admits problem as oil revenues fall

By Robin Allen in Dubai

Khatami: doubled duties to help domestic industry CNN

Lower than expected oil revenues have forced the Iranian government to ask the *Majlis* (parliament) to amend this year's budget to cover an estimated IR8,000bn deficit in the general budget up to March 20.

The predicted revenue shortfall amounts to between \$2bn and \$4.5bn, depending on which exchange rate is used. Previous ministerial statements had put the deficit at twice the amount given to parliament yesterday.

Senior western diplomats said this was the first time in eight years the government had been forced to admit it had a problem.

However, the acknowledged deficit applies to only 40 per cent of the budget, which receives most of the oil revenues but covers only ministries' current expenditure.

The second and larger part of the budget applies to state banks and industries, which are notorious lossmakers and where previous annual deficits have been covered by printing money.

The scale of this year's budget deficit is attributed to a fall in oil revenues, which comprise 80 per cent of hard currency earnings.

The 1997-98 budget was based on an average price of \$17.50 per barrel, with total projected receipts of \$17.7bn for oil and oil products. Iran's average crude production last year was 3.6m barrels a day (b/d.)

However receipts for the first eight months of the current Iranian year to November amounted to only \$10bn, according to Majeed Abbaspoor, industrial affairs adviser to President Mohammad Khatami. By January Iran heavy crude was trading in Europe at \$14.50, its lowest for nearly two years.

President Khatami's cabinet has already taken some measures for which it does not need parliament's approval. These include more than doubling commercial duties to 10 per cent on all imports bar basic commodities and raw materials for pharmaceuticals. These duties are officially known as "commercial benefits" because increasing them is seen as helping Iran's domestic industries.

Caracas set to quash devaluation fears

By Raymond Colitt in Caracas

Venezuela's central bank is this week expected to announce its new exchange rate for the bolivar following pressure on the currency last week.

The reference, or target, rate, which forms the basis for central bank intervention within a band, will be set at 504 bolivars to the US dollar and allowed to depreciate in line with this year's official 20 per cent inflation target, a central bank official said yesterday.

The new rate is to counteract widespread expectations of an accelerated depreciation and rumours of a devaluation of the bolivar this year. "We will continue to use our reserves in defence of the bolivar," said Domingo Maza Zavala, a director at the central bank.

The central bank drew heavily on reserves last week to defend the bolivar, which depreciated from around 500 bolivars to the dollar in early December to 506 bolivars by Friday.

Reserves dropped from \$18.67bn on December 26 to \$17.78bn, or 17 months worth of imports, last week. Demand for dollars soared after the stock market plunged 12.5 per cent last week. Investors are concerned about a possible budget deficit arising from a drop in oil prices and in response to the Asian crisis.

Venezuela's oil basket price is now \$2.23 below the \$15.50 per barrel used to calculate the 1998 budget.

OECD bid to allay fears on environment

By Leyla Boulton, Environment Correspondent

Industrialised nations will this week seek to dispel environmentalists' worries that new rules intended to facilitate foreign investment could threaten the environment.

A proposed Multilateral Agreement on Investment was originally conceived to remove obstacles to foreign investors within the 29 countries of the Paris-based Organisation for Economic Co-operation and Development.

The accord is likely to provide only a small boost for investors, but it has sparked fierce protests by environmentalist groups.

"As companies gain better access to markets they should also be given more responsibilities," argued Nick Mabey, an economist for the UK arm of the World-wide Fund for Nature.

Environmentalist groups such as WWF have raised fears that the accord could allow companies to sue governments for introducing environmental or social legislation that might curb their foreign investments.

Environmentalists claim their worries are borne out by the North American Free Trade Agreement. WWF says for instance that Ethyl Corporation of the US is using provisions in the Nafta accord to sue the Canadian government for banning as toxic a petrol additive produced by the company.

Almost since negotiations started 2½ years ago, the draft OECD investment accord has stated that countries should not sacrifice environmental protection to attract investors.

But in response to lobbying by environmentalists in the past six months, OECD officials say governments will consider additional "green" provisions when negotiations on the treaty resume in Paris this week.

These include a proposal that governments should be allowed to take any measures needed to protect the environment as long as they do not discriminate against foreign investors.

Another idea is to suggest that any expropriation made by governments on environmental grounds should not give rise to demands for compensation.

WWF says that without this change French water companies could in theory sue the British government for restricting water abstraction licences held by their UK subsidiaries.

However, Steven Bate, head of the OECD's business and industry advisory committee, said such a measure could only increase uncertainties for investors.

With some countries, including Britain, determined to ensure that the deal does not impede sustainable development, the accord could end up doing more for the environment than investment.

Green focus on multinationals

Multinationals are at the sharp end of protests by environmentalists who fear that unchecked foreign investment spells doom for the environment.

Nergis Irani, an Indian housewife, says she had always assumed multinationals would observe "higher environmental standards" than officials in developing countries.

But she has spent months campaigning to stop P&O, the UK travel and property group, from embarking on a \$500m port development near Bombay.

At the request of the local state government, P&O is studying the possibility of building a port in an area designated as ecologically fragile by the Indian Supreme Court.

Environmentalists say the case illustrates some of the dangers which have prompted them to lobby for changes to the Multilateral Agreement on Investment to be discussed this week in Paris.

The accord, which would set rules on the fair treatment of foreign investors, is open to countries outside the Organisation for Economic Co-operation and Development.

Although India has no plans to join the accord at present, environmentalists see it as something that could gain increasing importance in future.

The WWF's Nick Mabey says the case destroys the idea that existing voluntary OECD guidelines for good environmental behaviour by multinationals are sufficient to protect the environment.

These guidelines are likely to be appended to the investment treaty as a non-binding annexe.

The bad publicity generated by the protests has meanwhile prompted P&O to try to distance itself from the apparent haste shown by its local subsidiary to clinch a deal. The local subsidiary had originally hoped to reach agreement with the government of Maharashtra state by last month.

"One has to distinguish between people who are in the field, who are keen for a project to proceed, and those further up the corporate ladder," says Peter Smith, the group's director of corporate affairs. He says the subsidiary is still studying the project's environmental and social impact.

Leyla Boulton

Exiled Wei plans to press China on human rights

By Our International Staff

Wei Jingsheng, the father of China's modern democracy movement, is determined not to repeat the mistakes other Chinese exiles have made.

Dissidents have often lost their way after leaving the motherland. In the west, some have spent and consumed extravagantly. Others have grown haughty and remote. Many appear to reserve their most vitriolic criticisms not for the Communist party in Beijing but for their fellow dissidents in exile.

Mr Wei, who was allowed to leave China in November after nearly 18 years in jail, and who made his first visit to London last week, is determined to avoid the pitfalls which have sullied the reputations of some compatriots. He hopes also for immunity from the creeping disenchantment with the west that has afflicted some dissidents, most notably Alexander Solzhenitsyn, who grew weary of life in the US following his expulsion from the Soviet Union in 1974.

"Many dissidents are disappointed with the west because they have unrealistic expectations," said Mr Wei last week. "But I know the west is not ideal. I know it is not an 'out-of-this-world peach garden'."

Mr Wei, 47, was first imprisoned in 1979 after taking part in the "democracy wall" protests which blossomed following the downfall of the ultra-left Gang of Four. His exhortation that democracy should be Beijing's "fifth modernisation" – a satire on the official "four modernisations" campaign – became the most famous dissident demand since China's communist revolution of 1949.

His words carry more moral authority within China than those of any other activist. In exile, he intends to use his stature to urge foreign governments to step up pressure on China to improve its human rights record and accelerate progress toward western-style democracy.

He said western governments should use trade concessions – or punishment – as bargaining chips in their efforts to urge China to reform. Companies should also be aware that their engagement with China has resulted in the enrichment of the communist power elite but bypassed the broad mass of ordinary people, he said.

Dialogue between Beijing and western governments should go ahead only if Beijing is demonstrating improvements in its human rights record. If dialogue continues in the absence of human rights improvements, this would amount to an endorsement of suppression, said Mr Wei, who has set up an office at Columbia University in New York to help articulate and disseminate his views.

Beijing, for its part, maintains that economic reforms since 1979 have improved the lot of ordinary Chinese tremendously. Officials say China is taking steps to push through democratic reforms, albeit slowly. They argue that Mr Wei's utterances will do nothing to further the cause of human rights.

It is certainly true that whatever Mr Wei may say in London or New York, few of his words will filter through the veil of censorship that envelopes China. And despite his considerable personal stature, his ability to sway the policy of western governments may be limited.

Yet Mr Wei says he will not try to unite the disparate personalities and egos which make up China's overseas dissident community. China, he says, always manages to wreak havoc in overseas dissident organisations by infiltrating them with agents who sow discord and inflame jealousies.

"I don't have the energy to deal with all these agents. I am just going to do my own work. I will not try to unite the movement," he said.

Endorsement may not save Congress party

Sonia Gandhi dips toe in waters of politics

By Mark Nicholson in Sriperumbudur, south India

The Gandhi dynasty returned to Indian politics yesterday. Sonia Gandhi broke the privacy she has cultivated since the 1991 assassination of her husband Rajiv, the former prime minister, and launched a personal campaign aimed at rescuing the ailing Congress party's election hopes.

But while Congress believes Mrs Gandhi may be the last and best hope of reviving the fragmenting party, Rajiv's Italian-born widow told a modest crowd of 10,000 that she harboured no ambitions for political office.

Escorted by her daughter Priyanka and dressed in a green silk sari, Mrs Gandhi made only her third political speech, punctuated by cries of "prime minister Sonia", to a crowd of Congress workers bussed in from around Tamil Nadu state. Earlier she sprinkled jasmine petals on the site of her husband's death, who was killed by a Tamil Tiger suicide bomber.

Guards ringed the small garlanded stage as she addressed the crowd, which was framed by giant cut-outs of Jawaharlal Nehru, Indira Gandhi and Rajiv, who between them presided over Congress governments for 38 years. But, speaking in Italian-accented English, she said: "Devotion to India brings me here before you, not to seek office but to share my concerns about the future of the country."

"I feel anguished by the way our people have been abused and misled," said Mrs Gandhi, who took Indian citizenship in 1984. She lamented the growing "cynicism" of Indian politics and said her husband's dream for India was threatened by growing recourse to caste and religion in politics – the latter a veiled attack on the Hindu revivalist Bharatiya Janata party.

"My grief and loss have been deeply personal, but a time has come when I feel compelled to put aside my personal inclinations and come forward," she said in a restrained address which was translated into Tamil and received warm but scarcely impassioned applause.

Mrs Gandhi, cast by Indian media as an "enigmatic" power within Congress but otherwise shy of public politics, electrified the 113-year-old party three weeks ago by undertaking to break her political silence and campaign for the party. Her move came after a spate of splits and defections in Congress since it brought down the United Front coalition late last year and forced new general elections set for next month.

Her commitment prompted widespread speculation as to the force of the "Gandhi effect" on the elections – which Congress hopes will rally the party and curb early momentum gathering behind the BJP, which opinion polls already suggest may be in sight of forming the core of India's next government.

But, stern-faced and apparently nervous beside her far more relaxed daughter, who is in her 20s and also subject to speculation over her political ambitions, Mrs Gandhi showed few signs of an appetite for much more than a symbolic role.

The small crowd, mostly comprising older party members and many who had been paid Rs100 ($2.50) to make the trip, also gave little indication that Mrs Gandhi had caught India's political imagination beyond the Congress fold. Party officials had suggested she would draw 100,000 people.

Mrs Gandhi will make further appearances in south India next week. But though enthusiastic Congress workers cherished the belief that she would hand Congress victory at the polls and eventually accede to leadership of the party, yesterday's low-key rally suggests the "Gandhi effect" may prove limited.

Testing the Gandhi effect: Sonia (left) and Priyanka Gandhi wave to a crowd in Sriperumbudur yesterday AP

Testing time for Japanese premier

By Michiyo Nakamoto in Tokyo

Ryutaro Hashimoto, who marked two years as prime minister at the weekend, today faces the most severe test of his leadership with the start of the Japanese Diet session.

The next few months are set to be a difficult period for Mr Hashimoto and his unruly coalition of three parties united by the flimsiest thread of mutual convenience.

His political leadership will also have an impact on the markets, which will be following the Diet deliberations for clues on prospects for the economy. The recent stock market downturn and yen weakness stems in large part from disillusionment with the government's handling of the economy. Depending on what emerges from the Diet session, Japanese stocks and the yen could face renewed selling pressure.

"This is a period of tremendous turbulence in Japanese politics," says Minoru Morita, a political commentator. Although the Liberal Democratic party has regained a comfortable majority in the lower house of the Diet, the potential for political upheaval remains. That in turn would further unnerve markets at a time when financial stability is crucial to the government's hold on power.

Mr Hashimoto's mission is to ensure that the supplementary budget, featuring a Y2,000bn ($15bn) income tax cut, and the 1998 budget, are passed during the current Diet session. Given the LDP's majority in the lower house, that is achievable.

There is a real risk that failure to implement further stimulus measures could lead to another downturn in the markets. But the government's commitment to fiscal reform means that Mr Hashimoto has little room for manoeuvre.

Against that background, politicians of all persuasions are calling for further measures from the government to stimulate domestic demand. There is mounting concern that the Y2,000bn one-off tax cut being proposed by the government is not sufficient to turn the economy around.

The leading opposition party, the Democratic party, and its five allies, which have formed a parliamentary group, are not alone in their calls for further tax cuts. The opposition parliamentary group, the Minyuren, is the most vocal in demanding tax cuts amounting to Y6,000bn, but other parties, including the LDP's partner in the ruling coalition, the Social Democratic party, also support similar measures.

To make matters more complicated for Mr Hashimoto, there is growing dissent within his own party over tax cuts.

Meanwhile, Mr Hashimoto faces mounting pressure from the US to take further action. Last Friday, Washington conveyed its dissatisfaction with government measures to stimulate domestic demand, and called for further moves.

With the Tokyo Stock Exchange stuck under 15,000 and the yen sharply lower in recent weeks, there remains a possibility of further company failures before the year ends in March.

In that event, Mr Hashimoto is likely to be able to push the budgets through the Diet only on condition that his cabinet resigns, paving the way for a new government, said Mr Morita.

However, analysts widely expect Mr Hashimoto to hold on to power, at least until April, thanks to the LDP majority and the lack of a credible replacement.

Karachi nervous after killings

By Farhan Bokhari in Islamabad

Share prices on the Karachi stock exchange, Pakistan's main stock market, are expected to remain under pressure today, mainly because of concern over internal security after sectarian violence which killed at least 22 people and left more than 50 injured.

Even before yesterday's violence in Lahore, the market had already declined by more than 5 per cent on Saturday on worries over the fallout from the Asian economic turmoil and Pakistan's weak economy.

Salman Shah, former chairman of the privatisation programme and now an independent economist, said there was a growing lack of confidence in the government's ability to turn around the economy. "Many investors are bracing for a further devaluation of the Pakistani rupee after devaluation elsewhere in Asia."

Nervousness is likely to be increased by the possibility of retaliation for yesterday's killings. Pakistan's police and security agencies were on alert yesterday in Punjab, the country's most populous province, after the killings.

The victims were all Shia Moslems attending a prayer meeting at the Mominpura cemetery, one of the oldest in Lahore. Three armed gunmen entered the graveyard and fired indiscriminately at the crowd. No one immediately claimed responsibility for the attack and police said the identity of the gunmen was not known.

However, Shia community leaders claimed the attack was carried out by the Sipah-e-Sahaba ("soldiers of the friends of the prophet"), a militant Sunni Moslem group alleged to have ordered previous attacks on the Shia Moslems.

Jehanzeb Burki, chief of Punjab's police, said the attack "appeared to be a planned terrorist strike", adding that he expected some retaliation. Shia youth went on the rampage yesterday in parts of the old city, stoning cars, blocking roads and burning tyres.

The Sipah-e-Sahaba have campaigned for years against the Shias, demanding that Pakistan declare them heretics. At least 200 people were killed in Punjab last year in violence between Sunni and Shia militants.

Yesterday's killings dealt a blow to the credibility of Nawaz Sharif, the Pakistani prime minister, who announced tough anti-terrorism laws in August which were criticised by human rights activists.

IMF takes aim at Indonesia budget

But critics say the real problem is $80bn private debt, reports Sander Thoenes

Stanley Fischer, deputy managing director of the International Monetary Fund, yesterday indicated that the IMF would push Indonesia to implement government pledges to tighten monetary policy, reform the banking sector and liberalise the economy.

As the IMF team and US officials go about their business in Jakarta, analysts and economists have questioned why the IMF focus is on a budget worth $16bn rather than on the $80bn private debt which sparked the crisis.

Mr Fischer is expected to push for a 1 per cent surplus in the $16bn draft budget but has not said a word about the corporate foreign debt, much of it short-term and unhedged, which has quadrupled in rupiah terms because of the steep fall in the currency.

"It's one minute to 12," said Cees de Koning, country manager for ABN Amro in Jakarta, estimating that $59bn of this debt comes due this year, much of it owed to Japanese, French and German banks. "The IMF could easily call the private banks together."

President Suharto's new adviser on foreign debt, Radius Prawiro, last month said foreign debt totalled $133.3bn at September 30. Private companies owed $65.6bn plus $15.3bn in short-term commercial paper and bonds, Mr Prawiro said, dismissing estimates of much higher commercial paper debt.

Indonesia's government debt was $52.4bn but because much of it is long-term and in weak yen the government has scheduled only $7.56bn for payments and interest in 1998 – a fraction of the private debt coming due.

Pentasenaa Securities, an Indonesian brokerage, last week estimated that only 22 of the 282 listed Indonesian companies had enough cash flow, and this list included two companies known to have defaulted on debt. The brokerage said that in the corporate sector, property companies were hit the worst by the debt overhang.

Some industries have been cushioned from the worst of the currency turmoil, as their costs are in rupiah and their revenue in dollars. They include palm oil plantations, fisheries, mining and oil companies.

But many other sectors have been hit badly: many of the pulp and paper mills are highly leveraged, and the smaller textile and shoe industries say they cannot obtain letters of credit for importing raw materials because much of the banking sector has collapsed.

Plywood producers, cement mills and refineries have seen world prices drop because the economic slump has lowered demand across Asia. A predicted recession would hit domestic demand for most products as well.

Mr de Koning said lenders should accept that their clients would fail to pay, given an expected net current account surplus of $8bn and roughly $67bn in private and government debt service falling due in 1998. "If you demand all the money back you talk of almost full liquidation of Indonesian industry," he said. For lack of real bankruptcy procedures, he added, massive defaults were more likely.

Mr de Koning has talked to bankers and government officials about setting up a credit-clearing corporation to encourage a collective rescheduling of private debt, in return for a veto on new loans and full information on cash flow of the enterprises involved.

Mr de Koning and others dismissed talk of adopting a debt rescheduling similar to South Korea's, as Indonesian debt is mostly corporate rather than owed by banks as in South Korea, and the government is unable and unwilling to bail out all these companies.

Mr de Koning's credit-clearing corporation, run by the foreign lenders, would monitor debt rescheduling and collect payments in rupiah at the going rate, but only from enterprises which had reached rescheduling agreements with lenders. The central bank would accept the rupiah and, at least for the first four of an estimated total of eight years, guarantee dollar payments to the lenders.

The corporation would issue $35bn in bonds and deposit the proceeds with the central bank. Both the corporation and the central bank would have a veto on new loans to participating enterprises.

"It is solvable," Mr de Koning said. "The total amount is relatively low, less than a quarter of ABN Amro's assets. Any reasonable bank will agree that an organised rearrangement of the debt is advisable."

One western banker cautioned that bankers might not be ready for the same sacrifices they made in South Korea which has a much larger economy and a new government committed to painful restructuring.

Sri Mulyani Indrawati, a prominent economist, supported Mr de Koning's initiative but warned that few lenders would co-operate unless the government did its part to implement reforms and lean on the large conglomerates to sell assets or repatriate off-shore funds to pay off debts.

"The root of the problem is that the willingness to sacrifice is not there," she said. "Neither the companies nor the government is ready to give up anything."

Goh Chok Tong, Singapore prime minister, said yesterday it was important for the US, Europe and Japan to help fight the regional financial crisis, adding it could cripple several economies and create social and political instability if it is not properly handled, writes Sheila McNulty in Kuala Lumpur.

He called the six-month-old crisis the region's biggest test since the second world war. His comments were made as IMF and US Treasury officials arrived in the region for talks on the crisis. Indonesia and Thailand have complained about the strict conditions imposed by the IMF, but Mr Goh indicated such measures were needed to restore confidence.

Special report: Asia in Crisis, Pages 6 and 7

Suharto orders 15 projects delayed

By Sander Thoenes in Jakarta

President Suharto on Saturday ordered the postponement or review of 15 big infrastructure projects worth several billion dollars due to the financial crisis in the country and following criticisms that his government was backsliding out of commitments made to the International Monetary Fund.

Mr Suharto responded by putting 15 infrastructure projects back on a list of 156 postponed and reviewed projects, worth roughly $37bn, that had been drafted by his government in September in an effort to cut spending and reduce the current account deficit.

The president angered the World Bank when he revived the 15 projects, including a controversial $1.6bn power plant sponsored by Hopewell Holdings and Mr Suharto's daughter, one day after pledging budget austerity to the IMF in October.

The World Bank had objected to Hopewell's project, signed with the government only last month, arguing that Indonesia's take-or-pay agreements were too expensive and that Java already had more power than it can distribute. National Power and Tomen, which teamed up with another daughter of the president, saw their power plant back on the review list as well.

Unocal's $570m geothermal plant, sponsored by a friend of Mr Suharto, is back on hold, as is a similar project of Texaco and Chevron and a combined cycle plant of Coastal of Houston, worth $168.5m. In total the delays and reviews affect eight power projects, four toll roads, an airport, a meteorological equipment project and a controversial office tower owned by a state-owned social insurance fund.

A son of Mr Suharto announced over the weekend that he and the Nusamba Group, which manages funds of the president's private foundations, would postpone a $3.2bn refinery in East Java as well.

Malaysian waiver may upset markets

By Sheila McNulty in Kuala Lumpur

Malaysian authorities have taken the controversial step of reaffirming a waiver granted to UEM, which excuses the road toll company from having to make a general offer for the shares of its parent Renong, a politically well-connected infrastructure company.

The news, announced by UEM at the weekend, is likely to send shock waves through the stock market. The question of whether stock market rules would be waived for UEM has been seen as a test of the Malaysian government's commitment to institutional regulations and transparent corporate governance.

The latest ruling appears to signify that the interests of politically well-connected companies remain paramount. Investors fear that more corporate restructuring exercises such as UEM's purchase of a 32.6 per cent stake in the ailing Renong in November may be executed.

The UEM deal, for which the road toll operator had to borrow M$2.4bn (US$606m), was seen as a forced bail-out of a heavily indebted parent company by its subsidiary.

Renong is in effect controlled by the United Malays National Organisation, the nation's dominant political party. Following the UEM deal, investors sold the shares of subsidiaries of other struggling but well-connected companies.

Under stock market rules UEM had to make a general offer because its shareholding, plus that of "related parties", exceeded the general offer trigger point of 33 per cent.

In this case the main "related party" was Halim Saad, Renong's chairman and chief executive. Mr Halim owns considerable stakes in Renong, UEM and other affiliates.

An austerity programme announced in December by Anwar Ibrahim, the deputy prime minister and finance minister, was greeted as heralding a new era in which economic realities instead of political contacts would hold sway.

NEWS: UK

Second 'loyalist' group decides to return to multi-party negotiations which resume today

N Ireland killing mars peace talks

By John Murray Brown in Dublin

The Loyalist Volunteer Force last night claimed responsibility for the murder of a Roman Catholic doorman in Northern Ireland, warning that it was "not against peace, but not peace at any price".

The force is a breakaway anti-republican body which opposes the ceasefire adopted by mainstream "loyalist" paramilitary organisations since 1994.

The victim, Terry Enwright, was married to a niece of Gerry Adams, the president of Sinn Fein, the political wing of the Irish Republican Army. He is the third Roman Catholic to be killed in reprisal for the death of Billy Wright, the imprisoned LVF leader gunned down by republican inmates in the Maze two weeks ago.

The Enwright murder has cast a shadow over today's resumption of the multi-party peace talks. It comes in the wake of last week's breakthrough when Mo Mowlam, chief Northern Ireland minister in the British government, met "loyalist" members of the Ulster Defence Association who are serving sentences in the Maze prison for terrorist crimes.

The Progressive Unionist party, the political wing of the banned Ulster Volunteer Force, decided last night to return to the peace talks. The Ulster Democratic party, political wing of the Ulster Defence Association, will also attend.

The nightclub where Mr Enwright was gunned down is owned by a sister-in-law of David Ervine, a peace talks negotiator for the Progressive Unionist party.

In an effort to kickstart negotiations, the British and Irish governments were last night finalising details of a joint paper identifying the core issues at the heart of the peace deadlock, which officials said could be presented to the parties as early as today.

Paul Murphy, the Northern Ireland political development minister in the UK government, moved to answer nationalist concerns that the government was seeking to downgrade the importance of proposed north-south bodies. This followed reports at the weekend that the government planned a new body incorporating relations within the island of Ireland with those between Westminster and the new assemblies to be set up in Scotland and Wales.

"There's nothing wrong in talking about developing those relations between the UK and the Republic. At the same time, of course, people who represent nationalists in Northern Ireland will be very anxious to ensure that relations between north and south in Ireland are going to be very important indeed," Mr Murphy said.

A senior official of the government of the Republic of Ireland said officials were in contact yesterday trying to finalise the "heads of agreement" document.

In Tokyo, a spokesman travelling with Tony Blair, the UK prime minister, said there was "actually substantial agreement on the nature of the shape of an agreement, but the words will be difficult".

● The prime minister's "cautious optimism" was shared by Sinn Féin, which insisted that the talks could be kept on track, Liam Halligan writes. "I think a deal can be done." Martin McGuinness, the party's chief negotiator, told Sky TV. "If we accept the onerous responsibility placed on us by those who elect us, and if we show imagination, we can bring a resolution of this conflict by May."

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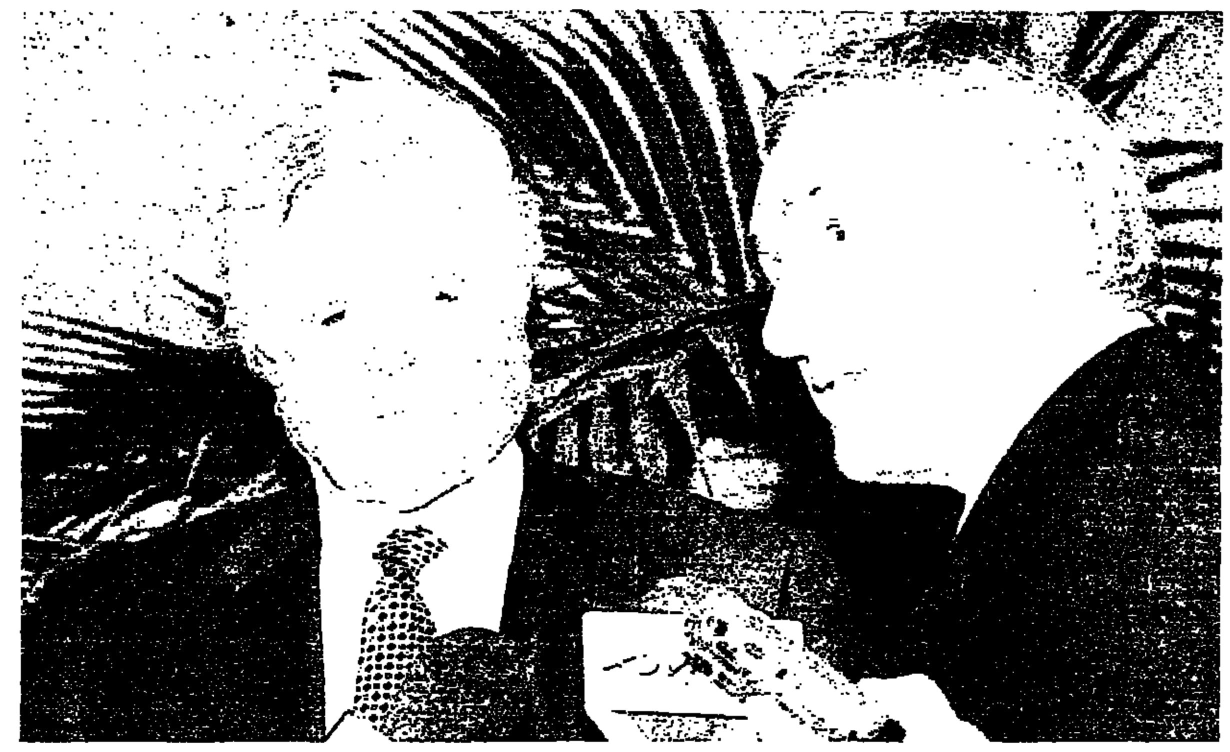


John Cogill
Senator Edward Kennedy gave support to the peace process at the weekend during a visit to Ireland in which he met Bertie Ahern, prime minister of the Republic of Ireland (above, right). Giving the Tip O'Neill Memorial Lecture – in memory of the late Speaker of the US House of Representatives – in Northern Ireland, he said Irish-Americans had long desired to see peace in Ireland. "There must be no return to violence: killing produces only more killing."

Consultant called in to aid defence review

By Alexander Nicoll, Defence Correspondent

McKinsey, the management consultant, has been called in by the Ministry of Defence to advise on a radical shake-up of the way weapons systems are developed, purchased and maintained.

A spokeswoman for George Robertson, the chief defence minister, said McKinsey consultants were examining procurement as part of teams, drawn from the ministry and private industry, which have been charged with producing reform proposals in the next few months.

Mr Robertson has made it a priority to eliminate delays and cost over-runs which have dogged the £9bn ($14.7bn) arms purchasing budget. He announced in November a partnership with suppliers intended to push forward his "smart procurement" initiative.

The ministry's procurement executive, which employs 4,400 people, is expected be the main focus for reforms.

However, the study's scope is wider, covering the entire process from the time when weapons were "a gleam in the eye" to maintenance and supply of spare parts.

This approach is almost certain to mean breaking down bureaucratic barriers between armed services staff who specify requirements, procurement officials who handle purchasing and support staff who look after equipment in service.

One review team is assessing lessons from programmes such as the EH101 Merlin helicopter, conceived 20 years ago but not yet in service, and replacement of 1970s combat radios, not due until 2001 in spite of a revolution in the communications technology available to the private sector.

A National Audit Office report last year found that 22 large projects were on average more than three years late, and that half of the projects had cost overruns.

The MoD is increasingly contracting out operations ranging from flight and vehicle training to its own internal telephone system. However, the McKinsey study is likely to mean much bigger changes.

McKinsey declined to comment on the review.

Japan to offer PoWs apology

By David Wighton, Political Correspondent

The Japanese government is today expected to make a gesture of reconciliation to the British former prisoners-of-war who have been demanding compensation for maltreatment during the second world war.

Tony Blair, the UK prime minister, sparked hopes of an announcement by confirming he would raise the issue during talks today with his Japanese counterpart, Ryutaro Hashimoto.

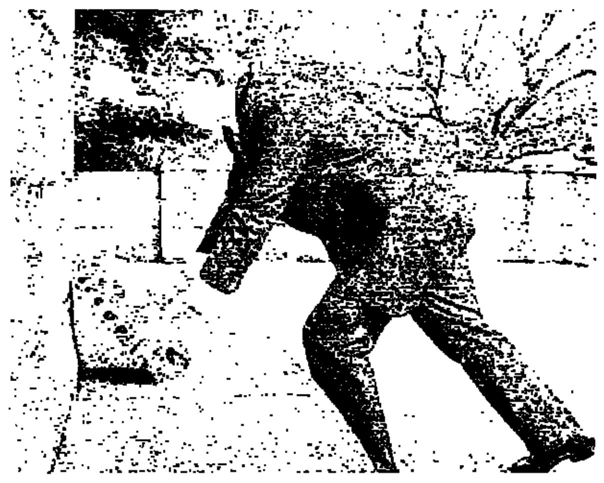
However, the Japanese government is not expected to meet the PoW's demands for direct cash compensation. It is thought Mr Hashimoto may only offer a further apology for their treatment during the war.

Any gesture would be a propaganda coup for Mr Blair on his first trip to Japan as prime minister. Since arriving on Friday, he has confirmed a £150m ($245m) investment by Toyota Motor, the Japanese carmaker, at its Welsh engine plant and delivered a tough speech to an audience of Japanese politicians and businessmen.

Otherwise the trip has so far been longer on photo-opportunities than on substance. But Mr Blair seems to have had an enthusiastic reception from both dignitaries and the Japanese public. His aides have also expressed satisfaction at press coverage, which has focused on the British government's reform programme.

Mr Blair said yesterday that the visit was already a great success and that there had been "tremendous" media coverage in Japan.

"I have come here to Japan, and Britain is a great good news story; people think it is a modern, dynamic, go-ahead place. there have even been comparisons with Japan, and saying why can't they be a bit more like Britain."



Reuters
Tony Blair visiting the war graves cemetery in Yokohama

UK NEWS DIGEST

New chairman for opera house

Sir Colin Southgate, chairman of EMI, is to be the new chairman of the Royal Opera House, Covent Garden. He takes over from Lord Chadlington, who resigned last month after an attack on the running of Covent Garden by the House of Commons culture committee.

Sir Colin has also been approached about becoming non-executive chairman of National Westminster Bank. The bank is looking to fill two non-executive positions after departures last year and, ultimately, to replace Lord Alexander, the chairman, who intends to stand down in 1999.

Sir Colin, 59, will be able to select his own board at the Royal Opera. The old board resigned along with Lord Chadlington, although some were asked to stay on.

Sir Colin takes on Covent Garden at a difficult time. The opera and dance companies are without a home as the Royal Opera House undergoes a £214m ($349m) refurbishment, and the cost of touring is leading to a substantial loss. *Antony Thorncroft*

■ BAHRAIN

Extradition request considered

Bahrain may ask for the extradition of convicted Shia Muslim dissidents from Britain and other countries where they are living. Sheikh Mohammed Bin Mubarak al-Khalifa, foreign minister, was quoted as saying in an interview with Bahrain newspaper Akhbar al-Khaleej.

A Bahraini court last year convicted in absentia eight Bahrainis accused of conspiring to overthrow the government, sentencing them to prison terms ranging from five to 15 years. Seven of the eight are thought to have lived in Britain, which has no extradition treaty with Bahrain, following their deportation from Bahrain in 1995 after they were accused of fuelling anti-government protests, which have erupted periodically since 1994.

Although Bahrain has consistently blamed outsiders, notably Iran, for fomenting civil disorder, most analysts and private sector businessmen in Bahrain attribute the problems to the Sunni government's failure to deal with widespread economic and social inequalities, particularly unemployment in the majority Shia community. *Robin Allen*

■ EUROPEAN PARLIAMENT

MEP vows to fight on expulsion

Hugh Kerr, one of two members of the European parliament recently expelled by the UK's ruling Labour party, yesterday vowed to fight his former party in the next year's European elections over controversial proposals to reform the welfare state. Mr Kerr, who was last week stripped of his Labour party membership along with fellow MEP and leftwing traditionalist Ken Coates, stood firm in his opposition to Labour's plans for welfare reform, and the party's adoption of centralised "closed" lists to select candidates in European elections.

Mr Kerr said that along with other disaffected Labour MEPs, he would set up a rival leftwing group in the Strasbourg parliament to stand against Labour in the 1999 elections to the European parliament. "We are going to sit as independent Labour MEPs and campaign against the increasingly reactionary policies of this New Labour government," he told a television programme yesterday. Mr Kerr, MEP for Essex West and Hertfordshire East, warned the government that "the wheels were coming off" the leadership's reforms of the Labour party. *Liam Halligan*

■ BRITISH AIRWAYS

Concorde pilot issued fuel mayday

The pilot of a British Airways Concorde issued a mayday alert over fuel reserves as the plane approached Heathrow airport in bad weather conditions, it was disclosed yesterday.

The scare happened during the storms early this month, when high winds forced planes to stack up over London's Heathrow for as long as 90-minutes, said BA. But the airline insisted that passengers on the New York to London flight were in no danger and that the aircraft could have continued to fly for at least another 30 minutes without running out of fuel.

Concorde pilots are instructed to issue a mayday as soon as their fuel level approaches the emergency reserve of 6.5 tonnes – a tenth of their total fuel capacity – BA said.

"It is a precautionary advisory call given even if there is a remote possibility of the aircraft landing with less than 6.5 tonnes of fuel. This was not an emergency and there was no danger to passengers," BA said.

The aircraft taxied to a halt at Heathrow with almost exactly its emergency reserve of fuel remaining, and passengers were not alerted to the fact that a mayday call had gone out.

US bank acts over electronic share deals

By Jean Eaglesham in London

Merrill Lynch, the US investment bank, will this week announce a service designed to help private investors who are getting a raw deal from the London Stock Exchange's new share trading system.

Some private investors are unwittingly paying "sucker prices" for shares because of a problem with the exchange's electronic order book, introduced in October.

The order book matches buy and sell orders for shares automatically, rather than dealing through marketmakers who provide quotes. By cutting out the middleman in this way, the exchange has reduced the average difference between buying and selling prices, known as the spread.

But the new system has been criticised by shareholder groups for giving individual investors poorer executions than large users.

This is because the new system suffers from lack of liquidity at the start of each day's trading when private investors are most likely to have their orders handled by execution-only brokers.

Individual investors can also be hit if they deal shortly before the exchange closes because spreads are wider during this period.

Merrill aims to help solve this problem by offering a quote-driven service, aimed at execution-only brokers, early in the day and in the last half an hour of trading.

Merrill accounts for about 20 to 25 per cent of trades on the exchange. This high volume means it should be able to cut substantially the spreads charged to small investors in these trading periods and still make a profit. The bank is looking to narrow spreads of about one per cent.

BSkyB may have to fund digital TV set-top boxes

By Cathy Newman in London

British Sky Broadcasting, the pay television company, faces having to provide finance to start production of the first set-top boxes, needed for customers to receive its planned 200-channel digital service, if it is to launch on time.

Manufacturers of the boxes have warned that they need to start production soon if BSkyB, the satellite network in which Rupert Murdoch's News Corporation holds a 40 per cent stake, is to launch as planned this spring.

BSkyB may have to provide temporary finance to manufacturers because an interactive television joint venture intended to provide subsidies for the boxes has been delayed by a European Commission investigation.

BSkyB has commissioned 1m set-top boxes from four manufacturers – Pace Micro Technology, Amstrad, Grundig and Panasonic. Amstrad, Panasonic and Grundig, which is producing and distributing a box designed by Hyundai, confirmed they had not started production in spite of BSkyB's hopes of launching in April or May. Pace, which reports interim results today, declined to comment.

Customers will need to buy a £400 ($650) box to receive digital satellite television signals. BSkyB intends to sell the boxes at half that price to encourage sales.

One manufacturer, which declined to be named, said it would not commit itself to mass production until British Interactive Broadcasting, in which BSkyB has a 32.5 per cent stake, was cleared by regulators.

"Until the regulatory issues surrounding BIB are cleared, no one is going to take the risk of going into production," said an executive.

He added that a subsidy would have to be guaranteed within a month to secure a prompt launch.

BSkyB may have to provide the subsidy itself for a time rather than paying only a portion of it through BIB. The company declined to comment, but it is believed that executives last week decided against delaying the launch.

BIB, in which the former state utility British Telecommunications also has a 32.5 per cent stake, would provide £600m of subsidy over 10 years.

The European Commission is concerned about the coalition of two dominant participants in the UK communications market, although domestic regulators have recommended approval of the venture.

The development comes after delays to a satellite launch programme affecting BSkyB. SES, the Luxembourg-based company that launches Astra satellites, may have to move a satellite into a different orbit to carry BSkyB's digital service.

Bank Austria sues top accountant for $240m

By John Mason, Law Courts Correspondent

Bank Austria tomorrow begins its High Court action in London to recover losses totalling £147m ($240m) from Price Waterhouse, the accountancy firm which advised the bank over its ill-fated acquisition of Sovereign Leasing.

Price Waterhouse was engaged by Bank Austria to carry out due diligence investigations into the leasing company before the £33m purchase in June 1990.

Bank Austria claims it relied heavily upon PW's advice and subsequently decided to go ahead with the acquisition of a majority stake in the leasing company. It later emerged Sovereign was worthless and made heavy losses.

Sovereign's apparent value was the result of unduly aggressive accounting policies and a substantial underprovision of bad debts, the bank will say. Had PW revealed the true financial position of the company, the bank would not have proceeded with the acquisition, it will say.

PW said it would defend itself "with the utmost vigour" against the allegations. It said: "Price Waterhouse is convinced that during the course of the court case the firm will be seen to have acted entirely properly in keeping with the highest standards normally associated with one of the world's top consulting and business advisory firms."

After Sovereign's problems came to light, Bank Austria injected a further £111m capital into the company to prevent it going into liquidation. New management was installed in late 1991 and gradually restored it to profitability. The company was sold to Girobank in 1996.

The case is expected to last about 12 weeks. Bank Austria is suing PW for breach of contract and/or negligence.

FT SPECIAL REPORT: FIRST OF A 5-DAY SERIES

ASIA IN CRISIS

The day the miracle came to an end

This series describes the way economic and financial turmoil struck the Asian rim of the Pacific. It highlights a handul of crucial moments that illustrate deeper themes.

The crisis started in the over-burdened financial systems of some of the fastest growing Asian "tiger" economies. In that headlong economic growth lay the seeds of the trouble. It attracted floods of foreign investment which pushed up land and asset prices.

Lending mushroomed. Investment bankers from the west rushed in. Huge infrastructure projects – new cities, railways, roads, power stations – were under construction. Yet under the surface, economic pressures were rising.

Most of the region's currencies were pegged to the US dollar, which had been appreciating in recent years. So the successful exporters of the region were gradually becoming more uncompetitive. Many countries suffered from "crony capitalism" in which the authorities encouraged banks to lend to politically well connected businesses.

It was, perhaps, not surprising that some of the fast growing countries – Thailand, Malaysia, Indonesia – ran into difficulties. Intermittent financial crises are often a consequence of very rapid growth. This time, though, the problem had wider repercussions.

The region was entwined with western banks and investors. Its powerful export industries were both suppliers to and competitors with key western industries – cars, semiconductors, computers. And the leading tiger, South Korea, was ranked as the world's 11th biggest economy.

The crisis-struck economies are intimate neighbours of Japan, the world's second biggest economy, which is still struggling to emerge from the collapse of its 1980s bubble. Japan's financial institutions – banks, brokers, insurance companies – are fragile, burdened with bad debts nearly a decade old. They are also big lenders to the rest of the region, vulnerable to a crisis there.

On these two pages, FT writers describe the Thai origins of the crisis, and how dominoes began to fall across the region. The story is far from over; but without understanding the roots of the crisis, it is impossible to assess the hazards ahead.

On June 25, 1997 Asia's economic miracle came to an end.

That was the day Thanong Bidaya, named Thailand's new finance minister five days earlier, first managed to discover the true state of his country's foreign exchange reserves and the problems in its financial system.

Fewer than a dozen people – all in the central bank – knew the answers. For months, they had been hiding two crucial numbers from the Thai government and the public. Mr Thanong knew he was not going to get the information just by sitting in his office, as his predecessor Amnuay Viravan had done. He and three assistants climbed into the leather seats of his blue Volkswagen van and set off to demand information from Rerngchai Marakanond, governor of the Bank of Thailand.

Mr Thanong had not wanted to do this job. He was in Hong Kong when rumours of Mr Amnuay's resignation began to surface, dreading the knowledge that he would be on the short-list of replacement candidates drawn up by Chavalit Yongchaiyudh, the prime minister. But Mr Thanong got a phone call anyway, just minutes before he and his wife were about to slip off to the anonymity of Macao. In his capacity as defence minister, Mr Chavalit ordered Mr Thanong to leave the presidency of Thai Military Bank and take charge of the Thai economy.

Mr Thanong was not regarded as an especially good banker, but he knew the tricks of the trade as well as anyone. Sure enough, on his visit to the central bank that June day, Mr Thanong quickly found the numbers he was looking for. He was horrified.

With the blessing of his superiors, the central bank's young and inexperienced chief currency trader, Paiboon Kittisrikangwan, had locked up most of Thailand's foreign exchange reserves in forward contracts. Thailand's reported foreign reserves of over $30bn were a myth – in fact they had dwindled to $1.14bn, equal to just two days of imports.

On top of that, the central bank's Financial Institutions Development Fund (FIDF) had lent over Bt200bn ($8bn) to struggling financial institutions. Finance One, the country's largest finance company, had alone received over Bt35bn from the fund in the first quarter of 1997. This lending had effectively drained seven years' worth of the Thai government's fiscal surpluses; the central bank was printing money to make up for the rest. The financial system had become a black hole, sucking out government money with no end in sight.

Within hours of Mr Thanong's meeting with Mr Rerngchai on that humid Wednesday came the leak. As was common with market-moving news in Thailand, no formal announcement was made. Instead, influential brokers and privileged journalists were quietly told that the FIDF would not, as it had promised in a press release exactly one month earlier, buy new shares in Finance One.

Finance One would shut down two days later, along with 15 other cash-strapped finance companies. Five days after that, July 2, Thailand was forced to free its currency from its longstanding peg to the US dollar, plunging East Asia into the financial turmoil that continues to this day.

By floating the baht, Mr Thanong avoided leading Thailand into a default on its international debt. And by letting Finance One fail, Mr Thanong started the long road towards plugging the hole in the financial system, although FIDF lending now stands at about Bt600bn and continues to climb. Of Thailand's six finance ministers in the two years preceding the baht devaluation, Mr Thanong is the only one to have left office with his reputation intact – even enhanced.

But there was a downside too. By abandoning Finance One, Thai authorities altered the way foreign investors assessed Thailand in such a fundamental way that when the baht was floated, it inevitably sank.

"Thailand had an open capital market and the Bank of Thailand acting as lender of last resort," says Rob Collins, head of Paribas Asia Equity, an affiliate of Finance One at the time. "That created a huge market distortion; there was no significant risk premium. It was all sovereign risk."

"When the Bank of Thailand decided it could not or would not act as a lender of last resort, the risk premium went through the roof – all the way to infinity," Mr Collins says.

Just months before Finance One collapsed, ING Bank in Thailand had lent the company money as part of a $160m syndication led by the World Bank's International Finance Corporation. Jan Cherim, Country Manager for ING Bank in Thailand, says: "Every time we saw the Bank of Thailand they would tell us 'Finance One is OK, we're backing it all the way'. When they didn't you had to question just about everything they had ever told you."

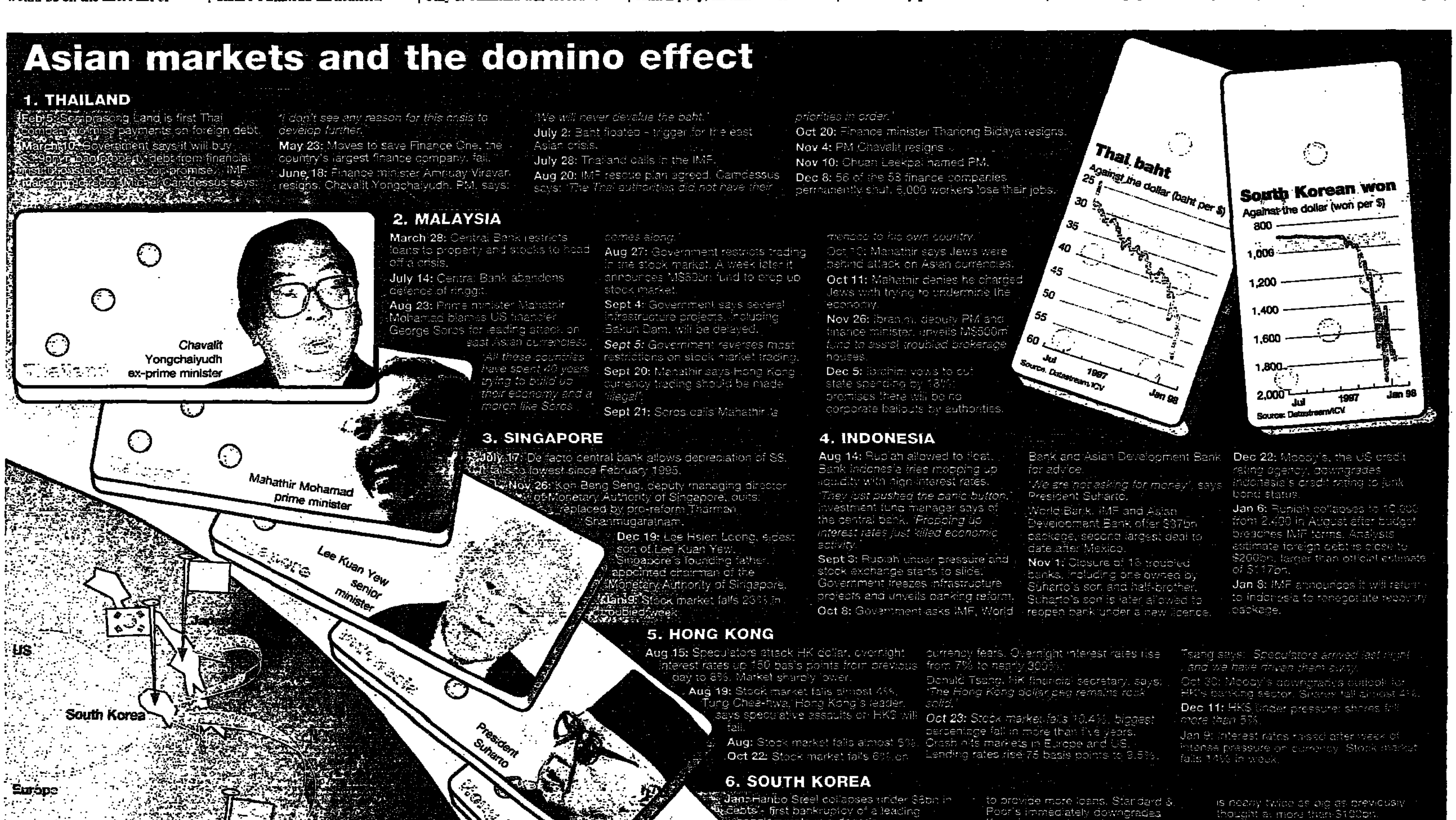
Investors had been told both that the baht's value would remain stable, and that leading financial institutions would not be allowed to fail. Though both these propositions were open to question, the authorities had successfully persuaded investors of their validity over the preceding months. They had preserved the value of the baht, and apparently found solutions to the problems of troubled financial companies.

The first open questioning of the baht's value had come towards the end of 1996. By then, it was possible for economists to construct a strong argument that the baht's peg to the US dollar had to go. Exports, the original engine of Thailand's fantastic economic growth, had stalled only to be replaced by a financial and real estate boom that kept foreign capital coming in. This new capital was increasingly short-term in nature, making the funding of Thailand's huge current account deficit precarious.

Currency speculators recognised this and made two preliminary attacks on the baht in November and December. Yet devaluation was hardly inevitable and a number of countries in Asia, eastern Europe and Latin America showed similar signs of distress. The Thai authorities' confidence in their dollar peg won the day. In January there were even substantial flows of foreign capital into Thailand.

Similarly, towards the end of February 1997, the authorities appeared to have steered their way through a financial sector problem, when the first rumours that Finance One was in trouble started to circulate. Pin Chakkaphak, the company's managing director and president of the Association of Finance Companies, publicly denied that the company was facing any financial difficulty. None the less, he had been actively selling his own stake in the company to the tune of Bt254m during a six-month, 75 per cent plunge in Finance One shares.

Mr Pin was the undisputed hero of Thailand's bubble years. With an MBA from Pennsylvania's Wharton School of Business and experience at Citibank, he built a formidable financial empire with assets of $3.8bn by latching on to the booming stock market and exploiting the interest rate differential between the Thai baht and the US dollar. Finance One was the first Thai company



FT SPECIAL REPORT: FIRST OF A 5-DAY SERIES

ASIA IN CRISIS

'People thought raising capital every year was a substitute for cash flow'

to issue a eurobond, paving the way for Thai companies to become the second largest Asian issuers of such paper.

Problems at Finance One would have a wide-ranging impact. So the government stepped in at the end of February. Finance One was to merge with a small Thai bank it had once tried to take over, Thai Danu, in a deal sponsored by the central bank which would effectively amount to a bailout of the finance company. The authorities suspended trading in all financial stocks for the day as they sought to reassure investors.

"The merger between Thai Danu and Finance One will serve as an example and model for more mergers between financial institutions to come," said Thirachai Phuvanatnaranubala, director of the central bank's financial institutions supervision department. "The sooner we can get this deal completed, the sooner we can restore confidence among investors."

Over the following months, the Thai Danu deal began to unravel and "inappropriate" share dealings and loans to affiliated parties were revealed. Every plan put forward to save Finance One fell flat and it became clear that there was no comprehensive strategy to protect the financial system.

Partly this was due to the extent of the problems within the system, problems for which Finance One stood as a striking example. Nearly two-thirds of the company's loans were in three problem areas – property, hire purchase and stock margin lending. As interest rates rose and the economy slowed, Finance One's non-performing loans doubled in 1996, then doubled again in the first quarter of 1997.

Meanwhile, the terms of Finance One's assets and liabilities were the most mismatched of any of the top 10 finance companies. It held substantial stakes in several smaller finance and securities companies which themselves were even more vulnerable to the dual pressures of high interest rates and a falling stock market. There was little surprise when Thai Danu walked away from the deal.

"Finance One was the symbol of all the excesses Thailand had built up," says Nikhil Srinivasan, vice-president of Morgan Stanley, which also had a joint venture with a Finance One affiliate company. "Through it you saw the rise and fall of a system where people thought raising capital every year was a substitute for cash flow."

When the deal with Thai Danu fell apart, shares of Finance One resumed trading after a three-month suspension. They fell 70 per cent – and in a sign of just how bad sentiment was on the Thai bourse, brokers were pleased that the shares fared so well. Some people, foolishly it turned out, still believed in the central bank guarantee.

Among those were a group of US investors who bought $600m in Yankee bonds issued in April at 90 basis points above treasury rates. Those bonds are now rated as junk bonds, and many institutions are forced to liquidate them at fire-sale prices.

These days, Mr Amnuay – the finance minister who resigned in June – spends his time playing golf, after suffering a mild stroke in Hong Kong just two days before the baht was floated. Mr Rerngchai resigned the Bank of Thailand governership on the day the country turned to the IMF. He is due to receive a bonus from the central bank, rewarding him for his nearly three decades of service. Mr Thanong has returned to the presidency of Thai Military Bank, his own resignation as finance minister having precipitated the collapse of the Chavalit government.

Mr Pin splits his time between Boston and the UK, steering clear of Thailand, where the authorities might seek to make an example of him. Thai Danu was bought by the Development Bank of Singapore last month.

But even though most of the major players of those crucial days are out of the picture – save the current Bank of Thailand governor, Chaiyawat Wibulswasdi, one of the targets of a government investigation into mismanagement at the central bank – the baht continues to sag, partly because the saga of Finance One is not over.

Finance One's assets, along with those of other finance companies totalling Bt930bn, are now in the hands of the Thai government's Financial Restructuring Authority. Until a system for disposing of them is devised and implemented, few investors will believe that the Thai financial system is safe. Few Thai companies will have access to the working capital needed to pull the economy out of recession.

Thailand has negotiated a rescue package with the International Monetary Fund, then discovered that its economic outlook is worse than it thought. It will need a dispensation from the IMF if the next instalments of the rescue loans are to arrive as promised. Sweeping reforms of the economy – especially the financial sector – are under way. And the external value of the baht has halved since the day Mr Thanong clambered into his Volkswagen van to start that journey to the Bank of Thailand.

Ted Bardacke

Thailand's ex-prime minister Chavalit Yongchaiyudh: beset by problems of growth, inadequate infrastructure and a rickety financial system

PROFILE

A telecoms fortune built on dollar debt

Businessmen like Adisai Bodharamik were supposed to lead Thailand into the 21st century. With a doctorate in engineering and 15 years working for the state-owned Telephone Organisation of Thailand (TOT), Mr Adisai became chairman of Jasmine International and chief executive of Thai Telephone & Telecommunication (TT&T). He built a private sector telecommunications empire on the back of a government concession to operate a telephone network.

Mr Adisai wore his tycoon status like a badge; he was the first private Thai citizen to own a jet. Now his empire is reeling. Both Jasmine and TT&T will post losses for 1997 and the outlook for this year is frighteningly unknown. Jasmine is rapidly retreating from its ambitious plans to be a regional telecoms player, while TT&T needs a government bailout to pay back its foreign and domestic debt.

"Hopefully the baht should be back at 40 to the dollar over the next three years. In that case we should be in good shape. We might not be an excellent company but at least we survive," Mr Adisai says. The baht now trades at above 50 to the US dollar.

Thailand's property and finance bubble is widely blamed for the country's economic collapse. Yet the addictive habit of rapid growth on the back of ever-increasing debt was also widespread in such forward-looking industries as telecoms and electronics.

Mr Adisai says the real trouble for TT&T began when it expanded too quickly. It was in the middle of installing a million telephone lines in the country's rural areas when the Thai government, just as committed to growth, offered 500,000 more. TT&T jumped in to prevent others from doing so. It agreed to pay TOT 43 per cent of its revenue.

"They were going to end our monopoly, so we had to grab the job. It's not easy to get opportunities. But the investment was a big burden," Mr Adisai says.

At the time, he though the outlook was good. "Thailand's economic climate in 1997 has better prospects than the previous year," reads Jasmine's 1996 annual report, predicting falling interest rates. During 1996, Jasmine's assets increased by 33 per cent, while equity declined and liabilities almost doubled. By September of 1997, TT&T had almost $400m in foreign currency loans, a great deal of it unhedged.

Few within the company could, or would, offer Mr Adisai opposing views. A group of family members and close associates holds about two-thirds of the Jasmine's stock. TT&T's company statutes say it will give preference in awarding contracts to shareholders, such as Jasmine, construction company Italian-Thai and supplier Loxley. In 1996, 62 per cent of Jasmine's net profit came from work related to TT&T.

Using those profits, Jasmine diversified and went regional. It took a stake in a failed hydro-electricity project in Laos, went into satellite and mobile phone ventures in Indonesia, the Philippines and India, and started building a huge new headquarters right next to the TOT offices.

Jasmine is now leaving some of those ventures. "Before, we were long-term investors. Now it should be short-term, if there are signs we can make a capital gain. The days of diversification are over," says Mr Adisai. The company is hoping the government will lease some floors of its yet-to-be-completed building. And to stop TT&T from collapsing, Mr Adisai has proposed that TOT become the company's largest shareholder in return for a reduction in the 43 per cent revenue-sharing.

"TT&T's problem is revenue per line," Mr Adisai explains, citing over-optimistic usage projections and a difference in tariff rates that gives customers an incentive to use mobile phones for long-distance calls. "A lot of traffic has been stolen by cellular," he says, his two cellular phones adorning the meeting room table.

There has been some public objection to bailing out TT&T as the rest of corporate Thailand flounders as well. But Mr Adisai swears it will happen in the first quarter of this year. His optimism seems to be rooted in the one part of his empire that remains fully intact: his impressive array of political connections.

Ted Bardacke

INDONESIA

The offshore borrowing trap

While most of its neighbours were still in a state of denial about the currency crisis triggered by the Thai devaluation, Indonesia met it head on.

On August 14, it floated its currency, the rupiah; on September 3 it announced an ambitious reform package, designed to restore market confidence. Long a favourite of the International Monetary Fund for its conservative monetary policy, Indonesia appeared ready to please again.

It froze a wide range of infrastructure projects, as part of a broader effort to cut government expenditure and help bring down the current account deficit. It promised far-reaching banking reform and, for the first time, said it would shut down insolvent and undercapitalised banks.

The government said it would raise luxury taxes to reduce non-essential imports while reducing import tariffs for raw materials needed by exporting industries such as textiles. It lifted a 49 per cent ceiling on foreign share purchases. In the short run, it pledged gradually to ease liquidity and interest rates.

"It was a self-imposed IMF programme," said Sudradjad Djiwandono, governor of Bank Indonesia. "We have been a very good student of the IMF."

The rupiah jumped back over 3,000 to the US dollar, the Jakarta Stock Exchange Index recovered sharply. "Domestic investors completely overreacted," said Stephen Rogers, head of research at UBS Securities in Jakarta. "They thought this was the final solution to the problem. They didn't understand the depth of the crisis. The perception among foreign investors was that this package was a reasonable first step but they had a hell of a long way to go. Still, a lot of people at that stage were giving the government the benefit of the doubt, on the assumption that the reforms would actually be implemented."

On September 16, finance minister Mar'ie Muhamad released more concrete plans to freeze infrastructure projects, including power plants and toll roads. Even the sons and daughters of President Suharto, regular sponsors of infrastructure projects such as toll roads and power plants, saw their projects frozen.

This time round, however, the Jakarta Stock Exchange dipped on the news. Brokers said they were more concerned with the problem at the heart of the currency crisis – high interest rates and mounting short-term foreign debt, built up by private enterprises, much of it unhedged.

Poorly reported, the offshore borrowings surfaced only as a topic when the depreciation of the Indonesian currency boosted their value in rupiah terms. Private debt had been estimated at $55bn but many brokerages feared this figure could be $20bn to $50bn higher, with much of the additional debt in short-term commercial paper.

"Investors are looking for a clear picture in terms of how deep and serious the asset problems are and how they are going to deal with them," said Paul Shang, head of investment banking in Asia for Lehman Brothers.

The government never gave this picture, and Mr Sudradjad conceded that he simply had no idea. Nothing the government could do would make these debts disappear.

Suddenly, Indonesia was no longer the good boy in the class. Domestic and foreign investors alike rushed for the exits. Local companies started lobbying for a more rapid reduction of interest rates, without much effect. And even if official lending rates were coming down, few banks were actually lending. Indonesia saw its first defaults.

"Between July and October, they couldn't have done much to prevent the crisis from touching Indonesia," said Nilesh Jasani, regional strategist for SocGen Crosby, the brokerage. "There were some flaws in the fundamentals, and the only reason these flaws were hidden was because of the investor confidence. Once that confidence was gone, there wasn't much they could do. It was already too late."

On October 8, Indonesia realised it lacked the means to restore confidence in the rupiah and its economy, and appealed to the International Monetary Fund.

"The market is very extreme," sighed Mr Sudradjad of the central bank. "When they trust us, they trust us like crazy. And when somebody's confidence is shaken, everyone follows."

Since then, the confidence problem has worsened. International investors have concluded the Indonesian government has less real appetite for reform than its sweeping September promises suggested. Banks and projects sponsored by Mr Suharto's children have been spared the full impact of the promised rigour.

And the budget announced last week was a clear breach of the deal agreed with the IMF. The currency's slide accelerated and Mr Suharto's own political future was suddenly called in question.

The lesson of Indonesia's experience is that the underlying problems of the region – particularly corporate foreign-currency debt – were greater than had been realised back in the autumn.

As this sank in, even a country which had appeared to be responding best to the crisis became vulnerable to a further collapse of confidence. In Indonesia, a country with 200m people and an ageing, authoritarian president, the consequences are potentially severe.

Sander Thoenes

Coming up in this series

Tomorrow:	How the problem spread
Wednesday:	The threat to Japan's financial institutions
Thursday:	Korea's struggle to avoid default
Friday:	Where next for Asia?

Reprieve for a favoured few

For once, Indonesia's "untouchables" were touched.

On November 1, Indonesia's finance ministry removed the licences of 16 troubled banks, its first step towards implementing a reform package agreed with the International Monetary Fund the day before. A long tradition of bailing out illiquid but well connected banks had come to an end – or so it seemed.

Among the list of closures were banks owned by President Suharto's son, daughter and half-brother, part of the élite which had built business empires on little but connections. "Perhaps an era of even-handedness is beginning to emerge," one senior western diplomat said. "We're not so naive to think it will happen overnight."

Bambang Trihatmodjo, Mr Suharto's most entrepreneurial son, insisted that the government had been wrong to close down his bank. He launched court proceedings against the finance minister and the governor of the central bank, accusing them of misleading his father into approving the closures.

Mr Bambang conceded that Bank Andromeda, in which he owned a 25 per cent stake, had exceeded limits on lending to shareholders. Andromeda lent $75m to Mr Bambang and two other shareholders, who used it to inject capital into the Chandra Asri petrochemical plant, in which they own 75 per cent. Chandra Asri had $1.37bn in debts. Mr Bambang's only defence was that 90 per cent of Indonesian banks had flouted lending restrictions as well.

Mr Suharto had always protected the business interests of his family and friends. But on November 7 the president announced he stood by his decision. "The government has considered all aspects of the 16 bank closures and the decision was taken for the common good of the nation," his spokesman said.

The incident encouraged journalists and opposition leaders to criticise other examples of cronyism, such as over-priced power plants and other projects sponsored by the president's relatives and friends. Reform-minded officials leaked documents to the press detailing the abuse of funds from a state insurance company for hotel bills of legislators, at the orders of the minister of labour. But journalists turned quiet again when President Suharto made clear he had personally ordered the use of the insurance funds.

And Mr Bambang had his way, after all. Within weeks of losing Bank Andromeda, he re-opened bank branches under a new bank licence, which he had taken over from a business friend. Some analysts believe Mr Suharto had not realised he had closed his own son's business but felt he could not backtrack publicly; they also believe that the president has been irate with the reformists in the government ever since.

In December Mr Suharto let his daughter, Siti Hadiyanti Rukmana, revive a power project sponsored by Hopewell of Hong Kong, which had been frozen as part of government austerity measures. Public criticism, a warning by the World Bank and a complaint by the electricity utility that it could not afford to buy the plant's output could not change his mind.

Clearly the era of even-handedness will not emerge overnight.

Sander Thoenes

INVESTMENT BANKING

The risks of being 'maximum bullish'

Investment bankers discovered Asia in earnest in 1993. Barton Biggs, Morgan Stanley's investment guru, declared himself "tuned in, overfed and maximum bullish" on Hong Kong as a play on China. It was the signal for a wave of liquidity.

Privatisations, initial public offerings (IPOs), block placements all took off. In Hong Kong alone there were 68 IPOs that year. Stock market capitalisation at the end of 1993 was 347 per cent of gross domestic product.

The first gainers were Hong Kong's own Big Three: Wardley (now HSBC Investment Bank), Jardine Fleming, and Schroder and Chartered, a joint venture. These had been joined by UK stockbrokers and Japanese securities houses. In 1988, an aggressive local house, Peregrine, started up, backed by such local luminaries as Li Ka-shing and Citic Pacific, Beijing's main investment agency in Hong Kong. And, as true investment banking opportunities began to emerge, the Americans arrived.

For many, it was a repeat visit. They had first journeyed east in the late 1980s – but failed to stay the course. "The Americans had a number of false dawns," says Alan Smith of Credit Suisse First Boston. "They came, they went, they came back again."

By 1997, the boom was apparently unstoppable. The first half of the year was characterised by rabid hiring and fat bonuses. The Hong Kong stock market hit record highs, daily volumes went as high as HK$50bn and there were a record 82 IPOs.

After the baht devalued in early July, volumes in many Asian markets remained strong. Other areas of investment banking suffered more, as new issues dried up and once-healthy assets crumbled.

Peregrine's fate sums up the story. A year ago, the bank was riding high, routinely capturing listings by "red chips", the Hong Kong affiliates of Chinese mainland companies. It had expanded rapidly, adding fixed income activities to equities.

This expansion brought it exposure to high-flying companies around the region – many now under extreme pressure. Peregrine's nemesis was Steady Safe, an Indonesian cab operator on which it gambled around US$200m, one-fifth of its capital.

Louise Lucas

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
BTM Fin (Curacao) 8⅞% Gtd Bd 2001 $887500.0
Barlow R0.88
Bristol Water 6¾% Cm Ptg Pf 1998 1.40548p
British Steel 3p
Caisse Francaise de Dev 12¼% Gtd Ln 2013 £306.25
City of London PR 1.87p
Conversion 9% Ln 2011 £4.50
Conversion 9½% Ln 2001 £4.75
GET 2.1p
GWR 1.3p
Granada 11¼% Bd 2019 £1125.0
Lothbury Fdg No 1 Class A1 Mtg Bckd FRN 2031 £332.05
Do Class A2 £1998.31
Do Class B £2204.33
Nissho Iwai 3.9% Bd 1998 Y390000.0
Nord Anglia Education 3p
Philip Morris $0.40
Prowting 2.1p
Scottish Value Tst 1p
600 1.5p
Transtec 0.85p

■ **TOMORROW**
Alps Electric 7% Bd 1998 Y700000.0
Do 7% Bd 1999 Y700000.0
Do 7% Bd 2000 Y700000.0
Amber Indl 1.75p
Hiscox Select Insurance Fd 1.5p
Jos 3.25p
M & G Second Dual Tst 18.56p
Mid Kent Hldgs 13.2p
Tie Rack 0.6p

■ **WEDNESDAY JANUARY 14**
Bermuda Bonds Fd $0.20
Funding 3½% 1999/2004 £1.75
Gleeson (MJ) 14.17p
Hino Motors 6.9% Bd 1999 Y690000.0
Japan Airlines FRN Jan 1998 Y1178645.0
Kobe Steel 5.2% Bd 1998 Y520000.0
Do 5¾% Bd 2003 Y575000.0
NEC 6.8% Bd 2000 Y680000.0
Peoples Construction Bank of China FRN 1998 $325.03
Do FRN 2000 $330.15
Perpetual 32p
Ricoh 7% Bd 2000 Y700000.0
Sainsbury (J) 3.75p
Sanwa Australia Fin Gtd Fxd/FRN 2005 $3242.36
Standard Chartered Und Prim Cap FRN $310.78
Do Und Prim Cap FRN (Ser 4) $307.94
Tongaat-Hulett R0.62
Toshiba 6¾% Bd 1999 Y675000.0
Treasury 13% 2000 £6.50

■ **THURSDAY JANUARY 15**
Aberdeen Cv Inc Tst 1.6p
American Medical Int 9⅞% Un Ln 2011 £4.9375
Anglo American Coal R4.60
BCE C$0.34
Barclays Bank Prop Index Cts 1997 £1.95
Do 1998 £1.95
Do 12% Un Cap Ln 2010 £6.0
Caledonia Invs 6.5p
Chester Asset Rcvbls No 1 Asset Bckd FRN 2000 £1906.54
Chrysler $0.40
Churchbury Estates 4.2% Cm Pf 2.1p
Dares Estates 10¼% 1st Mtg Db 2012 £5.125
Edinburgh Inv Tst 3¾% Db 1998 £1.875
Glenmorangie A Lim/Vtg 3.25p
Do B 1.625p
Govett Strategic Inv Tst 10⅜% Db 2016 £5.1875
Granada FRN 1998 £2044.99
Greenway 0.5p
Helical Bar Cv Cm Rd Pf 2012 2.625p
Inco 15¾% Un Ln 2006 £78.75
Irish Permanent 8½% Bd 2004 IR$4.28493
Johnson Fry Utilities Tst 1.25p
Do Inc 1.25p
M & G 24p
Morgan (JP) $0.95
Murray Int Tst 3.9% Cm Pf 1.95p
North Surrey Water 4% Db £2.0
Do 4¼% Db £2.125
Do 5¼% Db £2.625
Perkins Foods Cv Rd Pf 2005 4p
Quaker Oats $0.285
Sonar 2 Class A Mtg Bckd FRN 2022 £172.58
Do Class B £213.32
Sweden 11% Ln 2012 £550.0
Treasury 9½% Ln 1999 UPF 3.1p
Victorian Public Authorities 8¼% Gtd Bd 2002 $412.50
Vosper Thornycroft 8.25p
Waddington 4.7p
Witan Inv 3.4% Cm Pf 1.7p

■ **FRIDAY JANUARY 16**
Abtrust New Pf Inc Inv Tst 3.25p
Action Computer Supplies 1.5p
Anglo & O'seas Tst 4½% Cm Pf 1.575p
BSS 7p
Castings 1.68p
Clyde Blowers 5.33p
Commonwealth Bank of Australia Dtd FRN Jul 1998 $300.28
Do Dtd FRN Jul 1999 $300.28
Do Jul 2000 $300.28
Do Und FRN (Jul 1998) $307.94
De La Rue 7.5p
Echlin $0.225
European Inv Bank 9% Ln 2001 £225.0
Fuller Smith & Turner A 3.6p
Hongkong & Shanghai Banking Prim Cap Und FRN (Ser 3) $75.87
Jarvis Hotels 1.5p
Marks & Spencer 3.6p
Motorola $0.12
Nat West Bank Non-Cm $ Pf Ser B $0.4375
Do Prim Cap FRN Ser A $309.86
RPC 1.5p
St Paul Co's $0.47
Smith (James) Estates 2.1p
Sutcliffe Speakman 0.5p
Treasury 8½% Ln 2007 £4.25

■ **SATURDAY JANUARY 17**
Brockhampton 1.6p
Do A N/Vtg 1.6p
Treasury 2½% IL 2024 £2.008

UK COMPANIES

■ **TODAY**
COMPANY MEETINGS:
Perpetual, Phyllis Court, Henley on Thames, Oxon, 12.00
BOARD MEETINGS:
Finals:
Fyffes
Interims:
Cammell Laird
Ellis & Everard
Mulberry
Pace Micro Technology
Savills
Tomkins
Triad

■ **TOMORROW**
COMPANY MEETINGS:
Rodime, Erskine House, 68-73, Queen Street, Edinburgh, 11.00
Sanderson, Swallow Hotel, West Bawtry Road, Rotherham, South Yorks., 12.00
BOARD MEETINGS:
Finals:
SDX Business Systems
Interims:
Bespak
Capital for Co's VCT
Debenham Tewson

■ **WEDNESDAY JANUARY 14**
COMPANY MEETINGS:
Action Computer Supplies, 3, London Wall Buildings, London Wall, E.C., 10.00
Fenner, 20, Farringdon Road, E.C., 10.30
Gleeson (MJ), Haredon House, London Road, North Cheam, Surrey, 12.00
M & G, Painters Hall, Little Trinity Lane, E.C., 12.00
Majedie Invs, 3, Minster Court, Mincing Lane, E.C., 12.15
McCarthy & Stone, Homelife House, 26-32, Oxford Road, Bournemouth, 11.00
Wigmore Property Inv Tst, 155, Bishopsgate, E.C., 2.30
BOARD MEETINGS:
Finals:
Aberforth Smaller Co's Tst
Lowe (Robert H)
Interims:
Aberforth Split Level Tst
Dixons
First Technology
Martin Currie Moorgate Inv Tst
Stanley Leisure

■ **THURSDAY JANUARY 15**
COMPANY MEETINGS:
Fibernet, 50-52, Paul Street, E.C., 3.00
Royal Bank of Scotland, Edinburgh Int Conference Centre, Morrison Street, Edinburgh, 12.00
BOARD MEETINGS:
Finals:
Greenwich Res
Interims:
Farepak
FI

■ **FRIDAY JANUARY 16**
COMPANY MEETINGS:
BOC, Dorchester Hotel, Park Lane, W., 11.00
Bellway, Copthorne Hotel, Quayside, Newcastle upon Tyne, 12.00

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.
This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent announcements.

CONFERENCES & EXHIBITIONS

JANUARY 20 & 21
Introduction to Foreign Exhcange & Money Markets
Definitive training course - FX and money markets featuring WINDEAL dealing simulation. For Corporate treasury personnel, trainee dealers, back office and systems development staff plus ACI intro exam candidates. GBP 525.00 + VAT.
Lywood David International Ltd.
Tel: UK 44 (0) 1732 463014
Fax: UK 44 (0) 1732 463015
e-mail: training@lywood-david.co.uk
LONDON

January 23
Managing The Millennium Bomb
Will your company be the predicted one in ten that will fail to meet the deadline for coping with the Year 2000 problem? This conference will provide the opportunity to hear from leading experts in this field; Rob Wirszycz, CSSA, Karl Feilder, Greenwich Mean Time, Roger Bickerstaff, Bird & Bird and Duncan Stott, Glaxo Wellcome.
Contact: Anne McClean
Management Forum Ltd.
Tel: 01483 570099
Fax: 01483 536424
Email: management_forum@psilink.co.uk
London

JANUARY 26-28
Understanding Derivatives
Fundamentals to Derivatives Markets. How to hedge or leverage exposures on interest rates, currencies, equities and commodities using: • Futures • Options • Swaps • Swaptions • Exotics. Recent innovations in: • Value at Risk Models • Credit Risk Derivatives. 3 days £875 + VAT
Contact: Birchin International plc
Tel: 0171 628 4112 Fax: 0171 628 4113
Email: Birchin@Birchin.com
LONDON

JANUARY 27-28
New Sourcing Strategies for The Finance Function
25% of finance directors outsource part of the finance function. This conference examines these new sourcing strategies and examines potential cost savings and improved service levels.
Contact: Jane Mills
Tel: 0181 879 3355 Fax: 0181 879 1122
Email: jane.mills@business-intelligence.co.uk
LONDON

JANUARY 28 1998
Export Seminar
"Every Cloud Has a Silver Lining"
With the Tigers tamed turn to the Arab states: £10bn UK exports in 1997. Stable growth, diversification, privatisation, mean new export opportunities. Fee: £40 (inc. vat).
Enquiries: Arab-British Chamber of Commerce
Fax: 0171 396 4499
LONDON

Conferences & Exhibitions

JANUARY 28-30
Essentials of Derivatives Risk Management
Why are banks so fragile? They are all susceptible to derivatives risk. This course is not about rocket-science maths. It offers a useful checklist approach on how to manage and control the operational risk of derivatives. Whilst no background in derivatives is necessary, the course is suitable for all individuals involved in derivatives transactions. 3 days £875 + VAT
Contact: Birchin International plc
Tel: 0171 628 4112 Fax: 0171 628 4113
Email: Birchin@Birchin.com
LONDON

FEBRUARY 2
E-Commerce Workshop
Participants are led through the decision-making & development process from two significant projects. Issues of identity, using public key certificates & SSL in a financial services extranet system, payments using electronic purses and new high-level protocols in an internet shopping and banking system are addressed.
UNICOM
Tel: 01895 256 484 Fax: 01895 813 095
Email: info@unicom.co.uk
LONDON

FEBRUARY 2-4
Introduction to Capital Markets
This course is for individuals looking for a comprehensive overview of the international capital markets. The course offers practical information and exercises on bonds, equities and derivatives. Suitable for all individuals seeking to enhance professional competence.
3 days £875 + VAT
Contact: Birchin International plc
Tel: 0171 628 4112
Email: Birchin@Birchin.com
WHERE?

Fund Management in Europe: Maximising Profitability
The Wall Street Journal Europe's Third Annual Fund Management Conference will focus on:
- Markets destined for growth
- Impact of EMU on distribution costs
- Developing local distribution alliances
- Intermediary networks in Europe
- Outsourcing strategies
- The client-manager relationship
- Profitability in tax driven retail products
- Wealth management

Contact:
Fiona Stevens, Dow Jones
Tel: +44 (0) 171 832 9992
Fax: +44 (0) 171 832 9940
E-mail: conferences@cor.dowjones.com
DOWJONES Geneva

FEBRUARY 3-4
Corporate Intranet 98
Designed to provide you with the facts you need to prepare for the digital economy. *Corporate Intranet 98* covers the business and technological issues involved in developing internet/intranet/extranet applications.
Contact: Jane Mills
Tel: 0181 879 3355
Fax: 0181 879 1122
Email: jane.mills@business-intelligence.co.uk
LONDON

The Year 2000 Problem - Not just an accounting issue but a business issue with global implications
A timely seminar on Solving the Business Issues for Banks and Financial Institutions
Speakers from Bank of England, British Bankers' Association, KPMG and others will address topics including: Supervisory issues, the state of UK preparedness, legal and liability issues, budgeting and staffing implications in implementing the project plan, developing contingency plans and working with non-compliant firms.
Contact: Maria McCormack at KPMG
Tel: 0171 311 8975 Fax: 0171 311 4286
or Peter Allsopp, Email: pwa@allsopp-consultancy.co.uk
London

Conferences & Exhibitions

FEBRUARY 9-13
Corporate Credit Analysis Skills - Level II
• Sources & Interpretation of Information • Non-financial Factors • Management Competence • Cashflow Modelling • Accounting Concepts and Standards • Creative Accounting • Contingent Liabilities • Corporate Failure and Recovery Strategies.
5 days £1095 + VAT
Contact: Birchin International plc
Tel: 0171 628 4112
Fax: 0171 628 4113
Email: Birchin@Birchin.com
LONDON

FEBRUARY 9-13
Knowledge Management Series
The first complete European KM event leads you from Introduction to KM to Advanced Tools and Systems. Presenters include: Knowledge Associates, McKinsey & Company, The Knowledge Warehouse; Credit Suisse; Masons Solicitors; Sedecon Finland; Norwegian Technological Institute; Door Training International; Kenniscentrum CeBic; Cranfield School of Management; KPMG; ICL; Management Centre Europe; Coopers & Lybrand; NIP.
UNICOM
Tel: 01895 256 484 Fax: 01895 813 095
Email: info@unicom.co.uk
LONDON

Conferences & Exhibitions

FEBRUARY 11-13
Effective Negotiating Skills
This course is appropriate for financial staff in the support and sales functions.
• Principles of Negotiation • Negotiating Styles • Telephone Negotiations • Handling objections • Closing deals.
3 days £875 + VAT
Contact: Birchin International plc
Tel: 0171 628 4112
Fax: 0171 628 4113
Email: Birchin@Birchin.com
LONDON

Managing the New IT Agenda
Solutions and strategies for *managing unprecedented* change in the IT Function presented by leading speakers from industry, London Business School and MIT. Senior executives in IS, corporate strategy and the finance function will gain insights and perspectives into the management of key IS issues for their organisations.
Contact: Linden Selby
Tel: +44 (0) 171 262 5050
Fax: +44 (0) 171 724 7875
E-mail: LSelby@lbs.ac.uk
http://www.lbs.ac.uk/crim/conf98/
London

Conferences & Exhibitions

FEBRUARY 16
The 14th Annual FT London Motor Conference
The changing role of the car is the theme of this major FT automotive event. The Rt Hon Dr Gavin Strang MP, Minister for Transport will give the keynote address and other speakers include Professor Garel Rhys OBE, Cardiff Business School and Mr Christoph Huss, BMW AG.
Enquiries: Sarah Gibb, FT Conferences
Tel: +44 171 896 2639
Fax: +44 171 896 2696
Email: sarahg@pearson-pro.com
LONDON

FEBRUARY 17-18
Putting Knowledge Management Into Practice
Focuses on the critical success factors in implementing knowledge management. Each session addresses a vital area of knowledge management practice and reflects some of the most innovative and original work in this area.
Contact: Jane Mills
Tel: 0181 879 3355 Fax: 0181 879 1122
Email: jane.mills@business-intelligence.co.uk
LONDON

The Euromoney International Bond Congress
A unique combination of a conference and exhibition.
It gives bond market professionals the opportunity to hear from leading experts, discuss new ideas and develop new contacts.
1998 lead sponsors include: Commerzbank, Daiwa Europe, Deutsche Morgan Grenfell, Dresdner Kleinwort Benson, ING Barings, Salomon Smith Barney, SBC Warburg Dillon Read, UBS and Bridge.
Over 1,100 delegates from 47 countries, including 450 investors, attended in 1997.
Contact: Catherine Hillier
Tel: +44 (0) 171 779 8322
Fax: +44 (0) 171 779 8396
QEII Centre, London

FEBRUARY 17-19
THE ECONOMIST CONFERENCES
Third Roundtable with the Government of Poland. Meet the new key decision-makers. With the participation of President Aleksander Kwasniewski and Prime Minister Jerzy Buzek
For further information contact:
Ms Gerlinde de Leonardis,
Ms Monika Davies,
The Economist Conferences
Tel: (43.1) 712 41 61 0
Fax: (43.1) 714 67 69
Sheraton Warsaw Hotel, WARSAW

FEBRUARY 19 & 20
A Technical Approach to Bond and Currency Trading
Identifying and applying charting techniques to profit from market opportunities. Course uses sophisticated technical analysis software and dealing simulation. For traders/risk managers/market analysts/systems development personnel. GBP 525.00 + VAT
Lywood David International Ltd.
Tel: UK 44 (0) 1732 463014
Fax: UK 44 (0) 1732 463015
e-mail: training@lywood-david.co.uk
LONDON

FEBRUARY 23 & 24
The 16th Annual FT New Media & Broadcasting Conference
Speakers include:
The Rt Hon Chris Smith MP, Secretary of State for Culture, Media and Sport, Mr Richard Eyre, Independent Television Association, Mr Stewart Till, Poligram Filmed Entertainment, Ms Patricia Hodgson, BBC.
Enquiries: Sian Fancourt
Tel: +44 171 896 2626
Fax: +44 171 896 2696
Email: sianf@pearson-pro.com
LONDON

MARCH 2 & 3
FT Power in Asia
Focusing on Asia's financial turmoil and its effect on the region's power sector reform programmes, this conference will examine the new and dramatic challenges facing promoters of independent power projects.
Enquiries: Lucinda Roberts,
FT Conferences
Tel: +44 171 896 2120
Fax: +44 171 896 2696/2697
Email: lucindar@pearson-pro.com
LONDON

MARCH 3-4
The Added Value Finance Function
Now that more basic functions are outsourced, this conference examines ways in which senior finance executives are increasingly focusing on higher value added, decision support activities to serve strategic business objectives.
Contact: Jane Mills
Tel: 0181 879 3355 Fax: 0181 879 1122
Email: jane.mills@business-intelligence.co.uk
LONDON

Conferences & Exhibitions

MARCH 5 & 6
The 4th Annual World Steel Conference
Senior Executives from Kobe Steel, Ltd., Usinor, Arbed, Birmingham Steel Corporation, German Steel Federation, Trans-World (Steel) Limited, Metalsrussia and CSN Steel will address this FT Conference, organised with CRU International.
Enquiries: Lucinda Roberts,
FT Conferences
Tel: +44 171 896 2120
Fax: +44 171 896 2696
Email: ftc@pearson-pro.com
LONDON

MARCH 05-06
THE ECONOMIST CONFERENCES
Key Operating and Investment Issues in Ukraine
Second Annual Conference
For further information contact:
Ms Gerlinde de Leonardis,
Ms Monika Davies,
The Economist Conferences
Tel: (43.1) 712 41 61 0
Fax: (43.1) 714 67 69
Hotel Inter-Continental, VIENNA

MARCH 10-11
The 2nd International Accounting Standards Conference
1998's most influential conference on IASs. World class speakers from global companies, regulators and accountancy firms will discuss the implications and issues for multinational business arising from applying IASs. Planned in association with the International Accounting Standards Committee.
Organised by ICAEW and supported by FEE. Contact: Nicola Pitt
Tel: 0181 332 0044 Fax: 0181 332 0874
Email: Touchstone@btinternet.com
BRUSSELS

MARCH 16 & 17
FT World Pharmaceuticals Conference
Confirmed speakers at this major FT conerence, arranged with Coopers & Lybrand, include Mr Ernesto Bertarelli, Ares-Serono, Dr William Bogie, Medeva PLC, Mr Kurt W Briner, Sanofi Pharma and Mr Timothy G Rothwell, Rhône-Poulenc Rorer Inc.
Enquiries: Sarah Gibb, FT Conferences
Tel: +44 171 896 2639
Fax: +44 171 896 2696
Email: sarahg@pearson-pro.com
LONDON

MARCH 26 & 27
Mediterranean Capital Markets
The British Government, as Presidency of the EU, is pleased to announce this major two day conference, supported by the European Commission and FT Conferences, examining fast-growing capital markets of the Southern Mediterranean region. Speakers include: Mr Eddie George, Governor of The Bank of England, Dr Youssef Boutros-Ghali, Minister of Economy, Egypt, Mr André Azoulay, The Counsellor to His Majesty King Hassan II of Morocco.
Enquiries: Sian Fancourt,
FT Conferences
Tel: +44 171 896 2626
Fax: +44 171 896 2696
Email: sianf@pearson-pro.com
LONDON

MARCH 31 - APRIL 1
Strategic Performance Measurement 98
Our 3rd annual performance management conference helps you pinpoint the correct balance of measures, link them to your strategic objectives and address the behavioural issues that can prevent effective measurement.
Contact: Jane Mills
Tel: 0181 879 3355
Fax: 0181 879 1122
Email: jane.mills@business-intelligence.co.uk
LONDON

APRIL 1-2
Asset Allocation in a Changing World
The world is changing at a rapid pace. Learn how to modify your asset allocations to fit the evolving environment, keep updated on the latest developments, and acquire tools to improve allocation decisions. Contact AIMR in the USA at
Tel: 1 (804) 963-6880 ext. 123
Fax: 1 (804) 980-3634
Internet: http://www.aimr.org
LONDON

LANGUAGE COURSES

THIS WEEK

Age-old disfigurements exposed

DATELINE

Moscow: When compared with life a century ago, the problems of contemporary Russia seem all too familiar, writes John Thornhill

The prime article of faith among Russia's market reformers has been that the country's economic ills stem from its Soviet heritage. Smash the Soviet command system, they argued, and the process of "creative destruction" would unshackle industry, unleash private enterprise and allow a modern economy to leap free.

In many respects, the reformers have succeeded beyond their bravest expectations. In the space of five years they have privatised the bulk of Russian industry and entrenched the principle that capital must be spent where it earns the best returns, and not where a befuddled bureaucrat desires.

The values of Russian assets and exports have exploded as the country has plugged into the world's capital markets and trading system. Russia's streets are buzzing again with small-scale private traders providing much-needed goods and services.

Yet it also appears true that the more Soviet detritus the reformers remove from mother Russia, the more starkly they expose her age-old disfigurements. In a recent article, the Izvestiya newspaper compared life in contemporary Russia with that of a century ago and concluded, wearily, that many problems seemed all too familiar.

"Reading about events in century-old publications, one becomes distressed and depressed: in Russia, nothing changes!" the newspaper opined.

The superficial parallels with 1898 are indeed striking. Then, as now, Russia was desperate to "catch up" with the west to assert its position as a great power. Yet its grand ambitions were hampered by a distorted industrial base, an inefficient agricultural sector and demographic imbalances.

Then, as now, the underpinnings of an efficient market economy were weak. A malleable legal regime and the population's poor conception of property rights made investment a risky proposition. The government's shaky fiscal regime left it unhealthily dependent on foreign loans to finance infrastructure spending.

Moreover, Tsar Nicholas II, just three years into his ill-fated reign, remained ambivalent about the entire modernisation project being pursued by Sergei Witte, his dynamic finance minister, and constantly undercut important reforms.

As Theodore von Laue, a German historian of the period, wrote: "If the government was ever to be relieved of the unwanted responsibility of economic development, there had to be sufficient accumulation of capital in private hands – and in the most competent hands available.

"Let the businessmen get rich, the argument ran, so that they could take over the job of economic development. Whether, of course, they were capable of doing the job was another question."

Certainly, Anatoly Chubais, Russia's leading contemporary reformer, must feel more than a pang of empathy with Witte. Periodically undermined by the Kremlin during the fickle presidency of Boris Yeltsin and constantly harried by a hostile parliament, Chubais has had to douse as many political fires as he has fought economic battles.

It is also far from clear that the financial elite he has helped create will evolve from robber barons into corporate builders – as the current situation demands. Witte's problem, as described by von Laue, appears remarkably germane.

Russia's rapacious bankers merely snigger as they quote the "first law" of Victor Chernomyrdin, the prime minister: "We wanted things to end up better but they have turned out the same as always."

But comparing any two periods of history is fraught with dangers. Russia is in many respects a completely different country from what it was in 1898 – for better and worse.

Although there is no cultural elite today to compare with the creative talents of late 19th century, the overall standard of education is immeasurably higher. A largely illiterate peasantry was in Soviet times transformed into an educated, urban workforce – albeit at horrific human cost.

In addition, there is now a widespread recognition that Moscow can not be the fount of all political and economic initiative, as it was in both Tsarist and Soviet times. The gradual devolution of powers to Russia's 89 regions since the adoption of the 1993 constitution is one of the more encouraging trends of modern times, and quite unprecedented in the nation's history.

Besides, as Izvestiya points out, the comparison with 1898 is not a wholly gloomy one. Russia did not disappear at the turn of the century but survived to enjoy – if all too briefly – a spell of economic growth and a worthy place in the world. It was the first world war that brought all that shuddering to a halt.

Even that knowledge, though, may provide one additional crumb of comfort to modern Russians: it is hard to think of a time when Russia has enjoyed more peaceable relations with her neighbours.

The Monday Profile: Jack Sandner, Chicago Mercantile Exchange

Open outcry rules – for now

"How did you learn maths?" demands Jack Sandner, chairman of the Chicago Mercantile Exchange, one of the two big US futures markets. His telltale trader's arms wave wildly: "They gave you wordsheets, and you got 9,000 of these little problems. Totally unexciting. But today, you put a little CD-ROM called a mathsblaster on [the computer], and kids don't even know they did 50 problems."

When it comes to electronic trading systems, he contends, futures traders may be no different. "Now a [computer] screen which excites an upstairs trader is not what excites the local [independent trader]. Maybe, when someone offers '100', there should be a voice which comes out, screaming '100 at even money'. Or maybe offers should pop up, like in a pit... 100 here, 100 here, you should be playing with a joystick, to pick them off."

Sandner, who has been in the hot seat at the Merc for 13 of the 17 last years, is picking his way through the thorniest subject to confront the futures industry – and one threatening to alter its structure radically.

For decades, trading has been conducted by "open-outcry", where traders stand in a pit, and flash buy and sell signals to each other. The system looks chaotic, but is highly efficient. Essential to the process are "locals", who make their living through a large number of small trades, thus providing liquidity. But now technology is beating on the door.

Some CME members see electronic trading as an inevitable development to be embraced and exploited before competitors gain an edge. Others fear it will destroy their livelihoods.

Sandner has attempted to straddle that divide. It has not been easy. The CME saw volumes rise 13.4 per cent last year, but still fall short of 1994's record. The exchange, which ranks second to the Chicago Board of Trade, has slipped into third place internationally, behind the London International Financial Futures and Options Exchange.

By mid-1997, seat prices – the ticket for admission – were half that three years earlier.

Still, Sandner argues that until an electronic system is developed which can involve locals, open outcry rules. Diplomatically, he does claim to be looking for a more sophisticated electronic solution. The issue was raised with Bill Gates when the Microsoft boss was in Chicago, he says. Only last week, a team of experts from MCI were in his office, discussing the challenge. Game-type software – à la mathsblaster – may yet prove a fruitful avenue.

Even so, don't such inquiries come rather late in the day? "With hindsight, yup, you can say we should have done this five years ago," he concedes.

"But then going back about eight years ago – and I was there – we were trying to develop a matching system to trade after-hours, and that was the first of its kind for futures."

To an extent, this issue will cease to be Sandner's headache next month. Due to term limits, he will give up the CME chairman's job, although remain on the exchange's board. But the departing chairman is the first to admit this is only part of the challenge he hands on. The CME has grown substantially over the past 20 years yet its governance system has barely changed. "Our board is about 37. Can you imagine? We have 80-something committees – and a couple have 40, 50, 60 people on them."

His own suggested remedy is a "much smaller policy making board", plus four "quadrant boards" to look after issues related to the four main areas of CME business – agricultural contracts, fixed interest, equity-related and currencies.

More radically, he thinks the CME should review its basic organisation. "I think we should also explore the structure of this institution, from not-for-profit to for-profit," he says. "When you're head of a for-profit institution you're measured totally by the bottom line. You become tremendously efficient, and you have a much wider base of ownership, which usually makes your entity more valuable."

This seems to echo the demutualisation trends among financial institutions from insurance companies to stock exchanges. Sandner agrees. "Other people who did it aren't stupid. They did it for reasons. One is capital formation. I think the capital needed... to make [us] cost-efficient and so keep the trades at the exchanges, is a huge, huge number. You could be talking about $1bn, to really produce the global networks necessary."

That, he says, also argues for consolidation among exchanges. "If you become for-profit, you do it to expand your capital formation. Or you merge with the Board of Trade, like a Worldcom/MCI, to create the capital base and the unified products."

The very suggestion of a CME/CBOT merger draws raised eyebrows in Chicago, where traders see deep-seated rivalry and two very different cultures. The exchanges have yet to agree on even a common clearing system, though this is the subject of ongoing talks.

"I think we'll get that done," says Sandner, although he adds that "one things which makes it difficult is that we do compete in a way that is probably not productive". A merger, he contends, may make it easier: "If you were merged, success for one is success for the other."

Nikki Tait

FT GUIDE TO:

ALGERIA

What is the Algerian conflict and how did it start?
The roots go back to December 1991, when the Islamic Salvation Front (FIS) won the first round of Algeria's first multiparty legislative elections. The second round was cancelled by the army, which then banned the FIS and rounded up its leaders and supporters. The FIS took up arms and the crisis turned into an armed conflict.

What was the FIS about?
The ultimate goal of its religious message was the establishment of a state based on Islam. It also campaigned against injustice and corruption and promised a better life for people who had been living under one party rule since independence from France in 1962.

How has the conflict developed and what has been the government's strategy?
The army-backed government has followed a military solution. Attempts at negotiations with the FIS failed. The FIS tried to get together with Algeria's other secular parties and promised to abide by democratic principles but the agreement reached in 1995 – the Rome platform – was rejected by the regime.

Instead, it tried to win back the lost legitimacy by holding new elections without the FIS and with new and restrictive rules of play. Since 1995, Algeria held first presidential, then legislative and local elections – the last two massively rigged, according to the opposition – and has ended up with a former army general as president and a newly created pro-government party as the largest in parliament and in local councils.

What happened meanwhile on the security front?
The violence worsened. Initial targets were security forces or intellectuals, teachers and foreigners; then the population at large in bomb attacks. From late 1996 massacres became the norm.

Why are civilians the main targets in this war?
Each side tried to engage the population in its fight. The government has armed an estimated 200,000 people so far on the grounds that it cannot put a soldier behind every house and that fighting terrorism requires that people stop sheltering and feeding the armed groups. But these people are put under pressure by the armed groups to help them and are punished when they stop.

Who is officially responsible for the violence?
Much is blamed on the GIA – the Armed Islamic Groups. These extremists form several groups, some of which splintered from the FIS and claim to be fighting the regime as well. The armed wing of the FIS, the Islamic Salvation Army, is known to have targeted mainly security forces and is not blamed for massacres or other terrorist activities. It declared a ceasefire last October.

The GIA are believed to be indoctrinated by a extremist vision which considers that all those not with them are government allies and non-Moslems and and thus can be eliminated.

Why are there appeals for investigations?
The government's version of events and its determination to end the bloodshed have been put in doubt recently by human rights organisations, in particular following three huge massacres last August and September on the outskirts of Algiers, in which the army appeared to stand by while hundreds of civilians were killed by armed gangs.

The FIS and other observers have claimed that the GIA are infiltrated and manipulated by factions in the regime with a stake in keeping the violence alive and using it to settle internal disputes. This is strongly denied by the government.

There have also been suspicions that part of the violence is linked to banditry, tribal vendettas, GIA attacks on FIS supporters, and attempts to drive poor peasants off their land. Self-defence militias have also been accused of involvement in the killings, a claim the government again denies.

Why is the violence so brutal?
Algerian history has taught Algerians that conflict is resolved through violence. After 130 years of brutal French occupation, it fought a savage war of independence, after which single party rule left Algerians feeling angry and marginalised. There are strong elements of revenge in the conflict, so whole families are often wiped out. It is also about spreading terror among the population.

Why has the world only now taken notice?
The scale of the massacres and their frequency have have finally caught the attention of the general media and non-governmental organisations. The Algerian government has kept a tight lid on security information and often tried to understate the level of the violence. And since Algeria is considered a dangerous place for journalists as well as foreigners, very few went there before 1997. Journalists' limited access to the country has left the conflict until now largely unreported in the international media.

Has the west ever done much to help bring an end to the conflict?
Western governments have backed the regime, with debt reschedulings and aid from the International Monetary Fund, with the expectation that bolstering the government will bring an end to the killings. Today, they do not believe the regime's survival is threatened as attacks are not on oil and gas areas – Algeria is a major supplier of gas to southern Europe – and the state continues to function. But now western governments are under pressure from public opinion to show some initiative. The European Union is set to send a mission to Algiers, while the US has called on the government to allow independent assessments of the human rights situation.

Roula Khalaf

Gerard Baker · Economics Notebook

Inequality's unfair critics

Labour patterns suggest a trend towards meritocracy in the US

It is well known, especially among its detractors, that the US is a seriously unequal society. For all its success in the past few years in creating jobs, streamlining its companies to meet the challenges of global competition and controlling inflation, the already vast inequalities between America's rich and poor have widened still further.

But what are the sources of that disparity? Are they, as critics of the American model argue, that the US is an inherently unfair society in which raw market forces have fostered the creation of a dispossessed underclass, made up heavily of racial minorities and women in low-paid jobs?

Or is the explanation rather different: that the US is essentially an equitable society – where the large inequalities merely reflect differences in ability and contributions to overall economic welfare?

Although Bill Clinton's Democrat administration occasionally tries to deny it, there is little doubt that inequality has widened in the past decade. Wealth and income gaps had been narrowing for most of the post-war period until the Reagan era of the 1980s. The 1980s trend towards a reopening of the wealth gap seems to have been arrested in the 1990s, presumably as a reflection of broader stock ownership. The richest 1 per cent of the population owns about 30 per cent of total net wealth, down from the 37 per cent reached in 1989.

But income differences have continued to grow throughout most of the 1990s. While the average worker's real income has been broadly flat for most of the decade, those at the top have enjoyed significant advances. The ratio of the earnings of the top 10 per cent of income earners to the median increased from 2 to 2.2 between 1993 and 1995 alone.

The factor generally credited with having driven this widening inequality is the changing nature of demand for labour. As globalisation has sent lower-skilled jobs overseas, the economy has restructured towards higher-skilled, higher-paid jobs.

The transformation has been remarkable. Professional, technical and managerial jobs accounted for just one-sixth of the workforce in 1950. By 1995 that had risen to one in three.

This demand for skilled labour has placed a much higher premium on educational attainment. Generally speaking, workers who have spent more time in full-time education earn significantly higher wages. As Robert Lerman, a professor of economics at American University in Washington, argues in a recent paper*, detailed analysis of these trends supports the view that the US is becoming a fairer society.

As the table shows, in the period 1984-95 there was a clear correlation between educational attainment and real wage increases. Employees with some postgraduate education, for example, secured an 11.7 per cent increase over the period, while high school drop-outs' earnings fell 1.5 per cent.

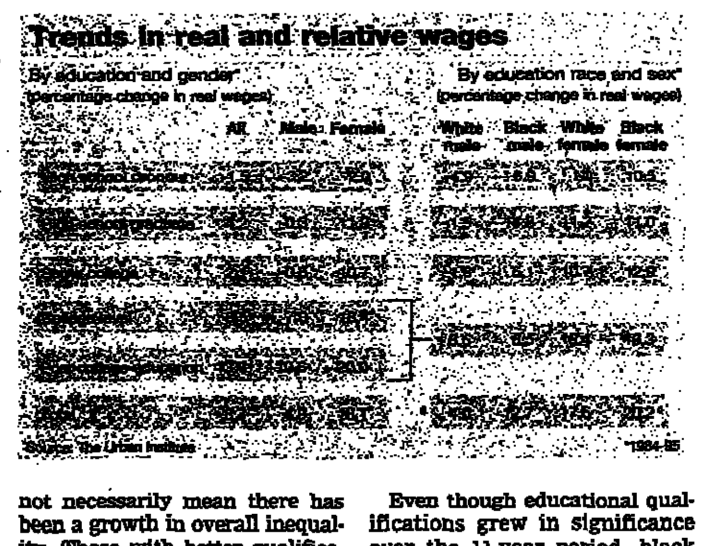
But that widening gap does not necessarily mean there has been a growth in overall inequality. Those with better qualifications, for example, now account for a much larger proportion of the workforce – measured by total hours worked – than they did 15 years ago.

Put simply, that means more people are going to college, counteracting the widening income levels between better and less well-educated workers.

But the most striking changes have been the narrowing of differentials, within each category of educational achievement, based on race and gender.

As the table shows, women's pay increased much faster than men's.

Even more graphically, at almost every educational level the largest increase in wages were achieved by black females, while the smallest increases – often actual declines – were recorded by white males.



Even though educational qualifications grew in significance over the 11-year period, black female high school drop-outs managed to record a larger increase in their real wages than white male college graduates.

Looking at women alone, the percentage wage differential between blacks and whites dropped in every category, except, curiously, for high school graduates. The largest decline was among high school drop-outs, where black women fared substantially better in the period relative to white women.

But even greater strides were made by black men relative to white men. All categories, with the exception of college-educated males, recorded a substantial closing of the gap between blacks and whites.

Most impressive was among the largest group – high school graduates – where the differential between white and black men's wages narrowed from 24.6 per cent in 1985 to 8.3 per cent in 1995. The deterioration of relative wages among the less well-educated in the period was, in fact, concentrated heavily among white males.

These figures, of course, apply only to employees. They do not measure the extent to which inequality has changed by gender and race if the unemployed are included in the analysis. But since unemployment has fallen sharply, especially among blacks in the past few years, it seems probable that overall racial inequality has declined.

The data clearly suggest that the overall picture of widening inequality is not as it is sometimes portrayed.

Indeed, Prof Lerman argues that the developments suggest the US has become much more meritocratic in the past 10 years, a factor that may have played a role in stronger economic performance.

"As employers have come to attach a higher priority to education, criteria such as race and gender, which should be irrelevant in the labour market, have become less important," he says.

More significantly, the increasingly free-market nature of US labour – widely berated by Europeans and Japanese as damaging overall welfare by increasing inequalities – may in fact be eliminating some of the non-economic factors that have traditionally distorted US and other labour markets.

**Meritocracy without Rising Inequality*, Robert I. Lerman, The Urban Institute, 1997*

MANAGEMENT

Vanessa Houlder looks at how the pharmaceuticals industry is developing the 'virtual' company

Prescription for cutting costs

Enthusiasm for the truly "virtual" company – in which every single aspect of the business is run by autonomous suppliers – is mostly confined to management theorists. Practical examples have been difficult to find.

One sector that is making headway with this radical method of running a business is the pharmaceutical industry. Two years ago, Roche, one of the world's largest pharmaceutical companies, calculated that it could shave as much as 40 per cent off the cost of developing a drug – typically hundreds of millions of dollars – by adopting a virtual business model.

In the summer of 1996, Roche put this idea into practice. It set up a subsidiary, called Protodigm, with responsibility for taking three drugs – for Alzheimer's disease, traumatic shock and cancer – through clinical trials.

After a year and a half, Protodigm believes it is on track to meet its targets. So far, every milestone has been met or bettered, according to Jon Court, Protodigm's managing director.

The company subcontracts its work out to as many as 20 suppliers for each drug. This is supervised by just eight directors and one administrator. Once the drugs have been submitted for regulatory approval, they will be handed back to the parent company for marketing.

How can this small group of managers hope to cut costs so significantly? For one thing, they can strike hard bargains with suppliers; for another, they can cut costs and time by keeping overheads and bureaucracy to a minimum.

These ideas are not new. Some industries have always tended to favour virtual structures. Property development, for example, has always depended on putting together small teams of contractors, surveyors and architects for individual projects.

But there is no doubt that these ideas are becoming increasingly popular.

In a survey by Andersen Consulting and the Economist Intelligence Unit last year, 42 per cent of the 350 respondents predicted that, in the future, their companies would operate in a wide network of alliances and relationships with other organisations.

The driving force behind this trend is that companies recognising they cannot do everything for themselves when faced with greater competition, growing cost pressures, faster technological change and the increasing need for more marketing muscle internationally. They also believe that small, nimble suppliers save time and money by cutting out bureaucracy.

"We are faster because we are less bureaucratic and we live or die as a service company", says Edwin Moses, managing director of Oxford Asymmetry, a rapidly growing UK contractor to the pharmaceuticals industry.

Advances in information and communications technology have made it far easier for a network of autonomous companies to work together. The availability of high quality suppliers has increased as job losses in large organisations encourage experienced staff to leave and set up as independent suppliers.

Many of these trends have been particularly prevalent in the pharmaceuticals industry. Moreover, the pharmaceuticals industry's need to generate new products makes it susceptible to these ideas.

Over the course of this decade, hundreds of alliances have been forged between pharmaceutical and biotechnology companies, which offer skills and a culture of innovation that the pharmaceutical giants sometimes lack.

A survey by PA Consulting three years ago found that research and development outsourcing in the pharmaceuticals industry was expected to increase by 30 per cent over the next five years. "Attitudes are changing," says Steve Bone, director of business innovation at Generics, a Cambridge-based consultancy.

"Some very large pharma companies are planning to do virtual R&D. It is an attempt to make their people more entrepreneurial and more outward looking."

But there are potential hazards with the virtual model. Can a very small staff offer enough expertise to guide a drug through trials? Dr Court is convinced that it can. "Being able to ask the right questions is the key thing," he says. "Between the nine of us we have 150 years of drug development experience."

Vanguard, another virtual pharmaceutical company, started in 1992 with four people and has expanded to 50 people. Although it still contracts out all its work, it has needed to employ more managers to ensure it has sufficient in-house expertise to supervise the contracting-out process.

Intellectual property is another potential problem. Traditionally, pharmaceutical companies have been extremely secretive about the processes they use to make their drugs.

Dr Court says he has no reason to doubt the discretion of Protodigm's suppliers which, he points out, also have confidential information of their own. "We want them to feel like partners. We have to trust each other."

He thinks that, traditionally, pharmaceutical companies have failed to get the best out of their suppliers because they are "hell bent on protecting their knowledge about the product".

Security is not the only reason for restricting the sort of R&D that is farmed out to suppliers. A company may damage its long-term potential by outsourcing certain aspects of its work, instead of nurturing its own capabilities. For When IBM launched its first PC in 1981, it outsourced its operating system development to Microsoft. This appeared sensible at the time – but proved costly in the long run.

Another factor that will influence the success of the virtual model is the state of the relationship between a large number of self-interested players.

Writing in the Harvard Business Review in 1996, Henry Chesbrough and David Teece of the Haas School of Business pointed out that co-ordinating a lot of different parties can be difficult, particularly if something goes wrong. By contrast, large organisations do not generally reward people for taking risks but they do have established processes for settling conflicts and co-ordinating all the activities necessary for innovation.

Virtual companies can move faster, work harder and take more risks than conventional organisations. But the incentives that make a virtual company powerful also leave it vulnerable, they argue.

"While there are many successful virtual companies, there are even more failures that don't make the headlines."

Workplace of the future

One of the hallmarks of a virtual organisation is a heavy reliance on information technology. Protodigm is no exception. "We are putting a lot of time, effort and money into IT," says Jon Court, its managing director. "Our goal is seamless communication of voice, documents and schedules."

To keep down its overheads, Protodigm does not employ a secretary. Its telephone system automatically screens calls by asking callers to identify themselves at the outset. The directors can be contacted anywhere and calls re-directed to other people. The emphasis on electronic and voice communications means there are fewer letters to write or file.

Secure computer networks play a crucial role. Protodigm is developing a "virtual private network", which will allow suppliers and customers to have access to relevant information, while ensuring that only a specified amount is divulged.

A truly virtual organisation, which relies on electronic links, might not need a headquarters. But Protodigm has found that, not only does it need an office, but that the office character has made a difference to its success.

The company, which is based in Hemel Hempstead, near London, started in serviced offices. "At the outset the serviced accommodation sent out the right sort of message that we were a cost-conscious new initiative," says Dr Court.

But the cramped, uninspiring base did not help build team spirit. With heavy travelling commitments and the opportunity to work from home, the directors found they spent little time together.

A need to foster a more welcoming atmosphere, coupled with a desire to signal the company's confidence in the future, prompted it to move.

The result looks more like an advertising agency than a pharmaceuticals company, according to Farrol Goldblatt, design manager of Morgan Lovell, which designed the offices. Wicker arm chairs and sofas occupy the centre of the office, which is decorated in reds, blues and yellows. "It looks professional, different and there is a really quite relaxed atmosphere about the place," says Dr Court. "It is a design that reflects us as a company."

MY SECRET WEAPON

Hilary Cropper on openness

If you are going to be a leader you need followers

Hilary Cropper joined FI Group in 1985, following a career at ICL and GEC. In 1987, she became chief executive of FI Group, the information technology group that was founded by Steve Shirley and originally employed freelance women programmers. The company, which is based in Hemel Hempstead, near London, had a turnover of £99m in the year to last April. It has been partly owned by its employees since 1991.

My style is tied up with the culture of employee ownership, which has profoundly changed this place. It affects every decision I take. I feel that I am working for the employees, not that they are working for me. They could probably vote me off the board if they wanted to.

There is a lot of talk about leadership but if you are going to be a leader, you need followers. There has to be something in it for them. What employee ownership does is make it very tangible.

Everyone has their say when it comes to making decisions. There is a real strategic debate that goes right through the organisation, from the bottom up and the top down. I believe in not having secrets. You can only get an organisation which is all pulling in the same direction and sharing in a culture, if there is a large amount of openness.

The changes in this organisation look more dramatic from the outside than the inside. FI's workforce used to be made up of women working part time from home or the client's premises. I personally did not think it could last when I got here. I surveyed everyone – the customers, the people inside, the suppliers. It was apparent that the company was not going to grow with the existing structure.

What most of the employees wanted was flexibility, rather than the ability to work at home. Part of the reason we work is that we want social contact. We want to get out and be with people.

We set up six or seven offices in leading conurbations, so we could bring work near to where people were living. There is a big degree of flexibility for the people who work here. If you want to work two days at home you can. You do not have to conform to a particular pattern.

Another way in which FI Group is different is that we have nearly equal numbers of men and women at pretty much every level. It is partly a legacy of being an all-woman organisation. If it hadn't started out that way, it would be quite difficult to create it.

Our intention is to keep an equal proportion of men and women. We recruit graduates from any discipline, not just from computer science courses. We find it easier to recruit women than the rest of the industry because they can see there are women at every level. They know they have a better chance of development.

I think there is a lot of rubbish talked about the different management styles of men and women. Some organisations are very macho. It can be very destructive. Most women don't want to play like that and opt out. But if you put men and women into a co-operative environment, they behave in the same way. Here we have a very team-oriented culture. It is about co-operation rather than competition. I think men behave differently here. They are far more outgoing, they share more.

I manage my time very carefully. I am disciplined about allowing myself real thinking time. I almost never work during weekends and holidays. It is essential to come back fresh. I never call people at weekends or in the evening.

Another thing that makes a big difference is using outsiders. Chief executive is a lonely job. Outsiders don't have an axe to grind. We use London Business School professors as external consultants. They facilitate team decisions.

Having really strong non-executives is very valuable. They bring a lot of experience and objectivity. They tell you when you are getting it wrong. I also have one or two external appointments. Getting a different perspective is vital.

Interview by Vanessa Houlder

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 11.01.98 — Final Prices for Trading on 14.12.97

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	10.57	10.59	10.59	0.00
0100	19.64	11.99	11.99	0.00
0130	20.89	39.20	39.55	1.01
0200	20.89	39.20	39.55	1.01
0230	20.89	31.68	32.02	1.01
0300	20.89	31.68	32.02	1.01
0330	20.89	19.23	19.57	1.01
0400	17.81	19.23	19.57	1.01
0430	10.57	19.23	19.57	1.01
0500	16.16	16.29	16.63	1.01
0530	10.58	16.75	17.09	1.01
0600	10.57	16.29	16.64	1.01
0630	10.58	18.21	18.55	1.01
0700	10.58	16.15	16.49	1.01
0730	10.57	16.15	16.49	1.01
0800	10.54	16.15	16.49	1.01
0830	10.53	16.15	16.49	1.01
0900	15.88	16.16	16.49	1.01
0930	10.58	16.70	17.04	1.01
1000	10.53	16.70	17.04	1.01
1030	10.58	16.75	17.09	1.01
1100	23.38	17.72	18.06	1.01
1130	23.38	17.72	18.06	1.01
1200	23.38	33.36	33.70	1.01
1230	23.38	33.36	33.70	1.01
1300	23.38	33.36	33.70	1.01
1330	23.38	18.40	18.74	1.01
1400	15.08	18.40	18.74	1.01
1430	10.58	18.40	18.74	1.01
1500	10.58	18.40	18.74	1.01
1530	10.56	18.40	18.74	1.01
1600	10.58	18.40	18.74	1.01
1630	15.11	24.36	24.70	1.01
1700	21.10	24.51	24.85	1.01
1730	34.65	40.00	40.34	1.01
1800	34.65	40.00	40.34	1.01
1830	34.65	29.99	30.33	1.01
1900	34.65	29.99	30.33	1.01
1930	22.00	25.04	25.38	1.01
2000	22.00	24.11	24.46	1.01
2030	21.10	24.51	24.85	1.01
2100	21.10	24.51	24.85	1.01
2130	21.10	19.46	19.80	1.01
2200	15.11	20.79	21.13	1.01
2230	21.10	24.95	25.29	1.01
2300	19.28	24.95	25.29	1.01
2330	19.28	24.95	25.29	1.01
2400	15.10	11.01	11.01	0.00

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of optimising the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8.30am and 6.15pm Monday to Friday.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 12.01.98 — Final Prices for Trading on 15.12.97

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	19.00	16.75	17.36	1.20
0100	17.79	16.75	17.36	1.20
0130	19.28	16.75	17.36	1.20
0200	19.28	16.75	17.36	1.20
0230	19.28	17.71	18.32	1.20
0300	19.28	17.71	18.32	1.20
0330	19.28	17.71	18.32	1.20
0400	17.04	17.71	18.32	1.20
0430	16.91	17.71	18.32	1.20
0500	15.10	17.71	18.32	1.20
0530	10.53	21.90	22.50	1.20
0600	10.49	30.66	31.27	1.20
0630	10.53	30.66	31.27	1.20
0700	15.10	30.90	31.50	1.20
0730	39.02	36.65	37.27	1.20
0800	35.77	38.24	38.95	1.20
0830	39.99	40.30	41.11	1.20
0900	39.99	42.29	43.35	1.20
0930	39.99	47.22	48.55	1.20
1000	39.99	47.84	49.33	1.20
1030	57.36	48.05	49.60	1.20
1100	57.36	48.09	49.63	1.20
1130	57.36	51.72	53.37	1.20
1200	39.99	52.14	53.80	1.20
1230	39.99	51.66	53.27	1.20
1300	44.50	50.88	52.32	1.20
1330	44.50	44.38	45.60	1.20
1400	44.50	46.76	47.98	1.20
1430	44.50	46.82	48.01	1.20
1500	16.79	46.94	48.14	1.20
1530	16.79	45.54	47.44	1.20
1600	18.81	50.31	50.31	0.00
1630	47.56	167.55	183.88	1.20
1700	83.17	291.53	328.52	1.20
1730	83.75	308.83	345.83	1.20
1800	92.94	238.89	266.95	1.20
1830	58.30	125.16	139.43	1.20
1900	55.56	81.58	88.08	1.20
1930	44.54	63.12	66.28	1.20
2000	46.63	49.12	50.69	1.20
2000	39.02	40.00	40.86	1.20
2100	35.90	38.13	38.80	1.20
2130	33.38	38.01	38.64	1.20
2200	33.38	37.00	37.67	1.20
2230	25.37	36.35	36.95	1.20
2300	33.36	33.09	33.70	1.20
2330	15.05	30.90	31.50	1.20
2400	10.51	30.66	31.27	1.20

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of optimising the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8.30am and 5.15pm Monday to Friday.
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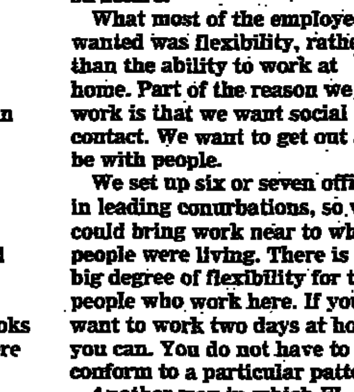
Is matrix management a recipe for chaos?

John W. Hunt Advises



Dear Professor Hunt,

Our new chief executive has been turning the company upside down and the process has been traumatic. The old reporting structures have gone – instead we now have much looser "matrices". If you try to pin down the management consultants who are advising him about how it's supposed to work, they answer with terms like "dual axis" and "self regulation". The whole thing looks to me – as one of the managers who has to implement the new structure – like a recipe for chaos. Are matrix structures likely to be a passing fad? I've read that some companies are already abandoning them.

Professor Hunt replies:

Matrix structures have been with us for centuries, though many ignorant consultants think they are new. Any family is a matrix in the sense that there are potentially two bosses, the mother and father. Government departments have been operating dual authority structures – with civil servants reporting to their permanent head and to a minister of state – for more than 100 years.

Some designers of organisations regard matrices as flawed and unstable because of the ambiguity that arises from two reporting lines. Others argue that their looser structural form has advantages: it brings the service provided much closer to the customer or client; it focuses on performance, with peer pressure, rather than formal systems and procedures controlling behaviour; and the matrix liberates teams and individuals to make decisions, be creative and behave in an independent, adult way.

Take the example of the operating theatre. The way it works evolved because traditional hospital design is organised around professional affiliations, rather than patient care. If we look at the organisational chart of a hospital there will be functions called Medical, Nursing, Accounts, Consultants, and so on. To get treatment, the patient usually goes from one professional group to the next. It is not surprising that the hospital trolley has become such a famous form of transport.

But in the operating theatre, multiple services for the client must be delivered simultaneously. The trolley is stationary and a matrix team operates on your body. The matrix will include a team leader, usually the surgeon, and specialists from the various vertical blocks who bring their skills to the patient. Each professional reports to the head of his or her function (axis 1) and to the team leader (axis 2). The structure is designed to react to time pressure and an uncertain environment. The surgeon and the team are not sure precisely what is going to happen, therefore their jobs are described rather vaguely so they can improvise. You call this a recipe for chaos. I would call it a flexible structure which relies on the experts in the team contributing their skills if and when needed. No traditional structure could work as effectively.

Turning to companies, international organisations sometimes run into trouble using matrices when they are trying to reconcile local and global objectives. Consumer products companies such as Heineken, Ford and Unilever have marketing and human resource functions both centrally and locally. This means the marketing manager in, say, Singapore, has to report to two bosses – their geographic boss and the central marketing boss.

Globally, it is unlikely you will get the market conditions which make a matrix structure effective in New York, for example, in all other parts of the world.

But, overall, if you ask whether the matrix structure is the best design we can produce for uncertain times, the straight answer is yes. The traditional military or feudal model of one person one boss may be admirably effective for simple tasks, a stable environment or vertical integration of expertise. But it is not very effective when it comes to handling highly complex tasks performed by numerous experts in unpredictable markets. Nor is it very effective, except when the company is small, in relating to the customer or client.

The traditional feudal model is not effective when it comes to handling highly complex tasks

So, if you are trying to get a matrix to work, what are the main points you need to keep in mind?

First, *matrices work best where the market is demanding*. In a stable, non-threatening marketplace, staff working in matrices begin to play political games; interpersonal skills, rather than expertise or merit, begin to determine who gets resources.

Second, people working in matrices need to understand that they will have a much less stable set of relationships because the market the matrix is serving is less stable. Trying to write manuals to cover every eventuality is a nonsense. You either accept that this is an ambiguous structure, or you get out of it.

Third, in some cultures where a feudal model of managerial control persists, it is unwise to introduce matrices. Alternatives are smaller units, more segmentation into divisional or local units, with overlays of matrices which affect only small parts of the workforce.

Fourth, while I strongly suggest you do not produce massive manuals and attempt to turn the matrix into a bureaucracy, there need to be clear ground rules about what each axis can or cannot do. It should be possible to document this knowledge on two pages.

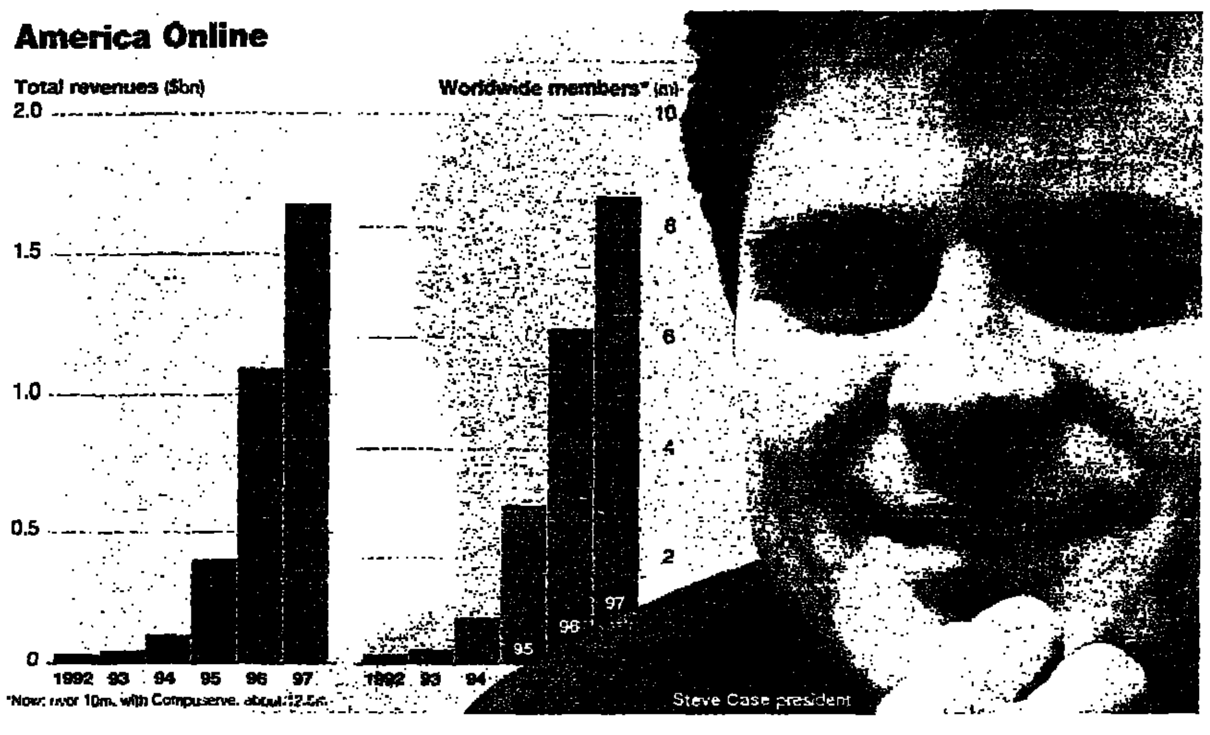
There are no correct forms for matrices. They are dependent on people and what works for one company may not work for another. Thirty years ago it was a common belief that the hierarchical structures of organisations were designed to be independent of the talents of the people involved. Indeed, I can recall receiving a very low grade when I was doing my MBA for designing an organisation around the main players. My professor explained that structures were pure forms and it was people who mucked them up.

Nowadays, any design consultant knows that while the design logic of working from strategy to objectives, targets, jobs and lateral thinking processes is enticingly seductive, the reality is that the design must suit the people involved, not the reverse.

John W. Hunt is Professor of Organisational Behaviour at London Business School and a consultant to private and public sector clients. This column appears fortnightly.

Nicholas Denton charts the online service's 12-year rise from small beginnings to market dominance

AOL hits the big time



The defining moment was just before Christmas, when *Ozzie the elf*, animated star of Santa's Home Page on America Online, hosted a Saturday evening special on ABC-TV.

America Online, known familiarly as AOL, had just underlined its status as the leading online service by announcing that its worldwide membership had passed 10m. And the group, already four times the size of Microsoft's MSN, its nearest remaining rival, was cementing its market dominance by finalising the acquisition of the number two player, CompuServe.

But, for symbolism, neither of these landmarks could compare with the night when AOL's cyberstar, nurtured in the kids' area of the online service, ventured unto one of the big three television networks. AOL, a scrappy 12-year-old company which as recently as 1993 had only 300,000 members, has hit the big time.

"It is all about eyeballs," says Keith Benjamin, entertainment analyst at Banc-America Robertson Stephens. "They spent a billion dollars, and they've got more than 10m eyeballs. They are now a major media company."

This prominence is recent. Steve Case, chairman and chief executive, co-founded the company in 1985. For many years it existed in the shadow of online services such as CompuServe, Prodigy, and GENie from General Electric. But while its competitors had deep-pocketed

The company's high profile makes it the focus of almost every complaint about the internet.

parents, AOL had one decisive advantage: ease of use. Floppy disks containing its software, including free trials, were distributed widely, often taped to the front of computer magazines.

It was the first service to adopt a graphical user interface: users, often forced to type arcane commands if they used a competing service, could navigate AOL by clicking their computer mouse on virtual buttons. And, more recently, Mr Case has added to the company's understanding of viewers by hiring executives such as Bob Pittman, founder of MTV, the music cable channel, and now chief executive of AOL Networks, the company's main division.

In sum, AOL is consumer-friendly. Ted Leonsis, chief executive of AOL Studios, the content origination arm of the group, relishes the mass market that many of AOL's competitors disdain. "You fundamentally have to like the audience," he says.

The rise of AOL has been punctuated by challenges. Microsoft appeared to be the one to topple the established online services when it launched Microsoft Network, later renamed MSN, and pressured personal computer makers into promoting the service. And the advent of the world wide web – which was like an online service to end all online services, accessible through any access provider, open to any creative effort – was widely thought to threaten all proprietary networks. But Microsoft, experimenting unsuccessfully with formats such as online soap operas, has largely failed to develop the entertainment sites necessary to attract a mass audience.

As for the rise of the internet, AOL, which provides a gateway to the web from within its own service and publishes some content on the open network, has only benefited from the public fascination in all things online.

True, internet ventures such as Yahoo!, the leading internet navigation service, have emerged as would-be online competitors with AOL. Yahoo! is the most heavily trafficked internet site, with 50m page views a day – equivalent to, say, 10m visitors pulling down five pages each on average.

But AOL believes it carries the equivalent of 10 times that traffic. It has left its online competitors behind, identifying its new counterparts as the media conglomerates such as Disney and Time-Warner. "I do not look at it as if we have 50 per cent of the internet market," says Case. "I see us as having 10 per cent of the households in the US and a tiny percentage of households in the world."

AOL's growth has not been without pain. In December 1996, the company, which had charged for the time members were connected, offered unlimited access in the US for a flat rate of $19.95 a month. That pricing policy brought new users and encouraged existing members to stay connected for longer. The result was that customers, unable to access the overloaded service, dubbed the company America On Hold.

AOL says its network can now cope with the traffic. But the company's prominence means any problems with e-mail delivery, for instance, are immediately picked up by the media.

AOL's high profile is a mixed blessing. The company is the focus of almost every complaint about the internet, from a sexual predator breaking into a children's forum to a page displaying a serial killer's poetry.

AOL executives say the problem is that there is no such thing as The Internet Company, to which critics can turn. "It [the criticism] goes with the territory," says Mr Case.

AOL has other weaknesses. Most of its members use slow computer modems to get online. That makes it hard for AOL to move wholeheartedly into cable internet, the business of providing video and rich interactive entertainment through cable television networks.

But Mr Case says: "I would not trade my cards in for anyone else's. In the world of the net, there has been some naivety: the belief that, if you build a web site, people will beat a path to your door. But audience reach is a critical component. It is not a big surprise for people who come from the real world."

One example of AOL's clout is its boast that its telecommunications costs are about two-thirds that of competitors and that modem makers pay it to install compatible equipment. And AOL demonstrated its power over advertisers when it said Tel-Save, a discount competitor to AT&T, was paying $100m (£61m) to market long-distance telephone services on AOL.

"AOL has control of the biggest internet audience chunk," says Mr Benjamin at Banc-America Robertson Stephens. "Size allows them to get a disproportionate amount of ad revenue – to extort money from anyone who wants to sell anything on the web."

Media companies are also increasingly anxious to publish on AOL. It used to celebrate when it persuaded a content partner to develop the service. Now publishers pay it for distribution, usually in cash, sometimes by playing to the vanity of an elf called Ozzie.

Viewers tempted to an extra slice

Consumers are due to get another taste of generic advertising. **Alison Smith** reports

Not long ago, much of the British food industry seemed to have lost its appetite for generic advertising. Campaigns that produced lines including "Go to work on an egg", "Unzip a banana", and "Drinka pinta milka day" seemed well past their sell-by dates.

Only the Meat and Livestock Commission, with its two special characteristics of having funds provided by a statutory levy on livestock farmers and of selling meat against a background of health fears, continued to run a significant volume of advertising.

But now the UK's brand-conscious consumers are getting a new taste of generic ads. Today sees the launch of a television campaign, starring the comedian Paul Whitehouse, encouraging people to eat an extra slice of bread a day. It will run for 12 weeks in the north of England: if successful in that region, it could be used nationally.

This campaign follows a return to TV screens early last year by advertisements for eggs. There could also be a new campaign for milk. David Balfour, general manager of the National Dairy Council, sees a fresh enthusiasm for generic advertising. This comes partly from the success of a multi-million dollar campaign in the US, featuring celebrities with "milk moustaches", he says.

For milk, as with some other traditional staple elements of the British diet, pressure to advertise comes against the background of steadily declining – or, at best, static – sales.

Health concerns, for example about cholesterol or fat, are partly responsible, but so too are highly advertised rivals. Milk faces competition in the youth market from carbonated drinks such as Coke, Pepsi and Tango. For bread, the popularity of breakfast toast is up against heavily promoted cereal brands.

Though there can be a place for marketing brands in the staple food sectors – both Hovis bread and Unigate milk advertise in their own right – such campaigns are not the complete answer for these industries. Even the biggest brand names do not so dominate the market that their own promotions have much impact on the sector. Equally, they can benefit from generic advertising that increases total sales, since they supply own-brand products for supermarkets.

There is some recent evidence that generic ads do increase sales. Chris Lamb, consumer marketing manager at the Meat and Livestock Commission, says sales of pork mince rose 60 per cent after the campaign launched last autumn to highlight the convenience of the food. Amanda Baiden of the British Egg Information Service says last year's advertising took estimated consumption per person per week from 1.88 eggs early the previous year to just over two.

The question of effectiveness is sharp. Previously, generic advertising across a range of foods could be funded through compulsory levies. Now the deregulation of many food sectors means campaigns are financed only by optional donations. Not only do the ads have less money behind them, but they must also show more clearly that they work.

John Murray, director general of the Flour Advisory Bureau, which initiated the bread promotion, says running a national campaign equivalent to the local ads beginning today would cost between £3m and £3.5m a year. That may not seem much for a sector where annual sales amount to almost £3bn. But since the money would be raised voluntarily, it would be a significant vote of confidence in the approach if the UK in general got the chance to enjoy Paul Whitehouse's performance.

A new chapter for Britannica

It is the end of an era. Encyclopaedia Britannica International, doorstep purveyor of knowledge, will today announce it is to close its home sales force in the UK and the Irish Republic.

The 230-year-old business aims to modernise a brand facing growing competition from computer companies and other information suppliers using the internet.

The business is perceived by consumers to be old-fashioned and conservative, according to Tim Pethick, Encyclopaedia Britannica's vice-president and general manager of English-language products. "We haven't nurtured the brand as we should have. And we have been tarnished by the notion of door-to-door selling," he admits.

Worldwide sales of the 32-volume printed edition of Encyclopaedia Britannica have fallen 85 per cent since the early 1990s, from 350,000 in 1990 to an anticipated 25,000 in 1998.

The company's 70 independent direct sales contractors based in the UK are to be phased out by April. In-home presentations by sales people ended last June.

However, the company still has its strengths. Consumer research has revealed a number of positive brand attributes, such as authority, credibility and quality. Mr Pethick says. "The company is now working to build on these while also dusting off outdated notions of the Encyclopaedia Britannica brand."

The first phase of restructuring began with the launch of Britannica Online, the first complete online encyclopaedia, in 1994, and there has been a dramatic increase in demand for the company's computer-based products.

While Mr Pethick expects to sell just 4,000 printed sets of the encyclopaedia in the UK this year, projected UK CD-Rom sales are more than 80,000.

"There has been an almost complete reversal in our product focus. While we are not proposing to discontinue the print set, [it] has become a secondary product. In the longer term, we expect business to shift further towards the internet."

The purchase of the company two years ago by investors led by Swiss-based financier Jacob Safra was the trigger for the restructuring which began in earnest last year in Australia and the US. Home sales teams have already been phased out in both countries.

Worldwide sales activity will now focus on high street retailers, direct marketing, direct response advertising and the internet.

Encyclopaedia Britannica has appointed US-based Acclaim Entertainment to distribute its CD-Rom products in book and computing stores throughout Europe.

As the refocusing gets under way, the company will launch a big direct response advertising campaign for CD-Rom next month, and will expand its internet site to handle online sales from March. It has also appointed Australian advertising agency The Frontline to update its image.

In the UK, a £1m rebranding campaign for the UK will run later this year as part of the worldwide branding initiative.

Meg Carter

Tim Jackson · On the Web

How to junk unwanted e-mail

This week I discovered the solution to junk e-mail. Few users of the internet in Europe or Asia are aware of how serious this problem has become in the US. The average American internet user probably receives half a dozen pieces of unsolicited e-mail a week, and millions of unlucky subscribers to America Online receive that number or more each day.

Lawsuits in which online services and internet service providers sue junk e-mailers for harassing their customers are becoming old news, but the problem worsens. Last week, one group of junk e-mailers threatened to publish a list of the e-mail addresses of 5m AOL customers unless the company allowed it to send bulk e-mail to its subscribers.

Technical solutions have been tried and failed, largely because "spammers" – senders of junk e-mail – tend to use false addresses that they change frequently.

The solution? A piece of software known as MailGuard and devised by Maurice Valmont, a South African-born contract programmer in Florida. Mr Valmont, 32, had the idea after looking at the extreme measures used by news group users to discourage spammers from contacting them. He spent three months writing his program, and launched it last September.

MailGuard, which can be downloaded from *www.fundi.com*, interposes itself between the user's e-mail package and the internet. When mail comes in, it checks whether it recognises the address of the sender. If not, it issues a carefully drafted challenge, asking the sender politely to confirm that he is not a bulk sender of commercial mail by replying with a specified phrase in the e-mail subject field.

If the sender is a normal human being, the challenge will produce a quick response. The sender's original message will then be passed on to the e-mail software and the sender's name added to the list of approved correspondents and never challenged again.

If the sender is a spammer using a fictitious address, the most likely outcome will be that the challenge disappears into the ether, and the original message will be stored by MailGuard instead of being passed to the user.

In theory, a spammer using his own e-mail address might read the challenge and reply, but that is unlikely: first, few spammers have the time to deal with incoming mail individually; second, the sending of an untruthful reply could constitute a clear case of fraud.

The result is that MailGuard acts as a highly effective filter against spam, while storing dubious messages so that the user can go in and scan through them on a rainy afternoon to make sure nothing important was filtered out by mistake.

Mr Valmont's idea contains a nugget of marketing brilliance. The program allows you to create a list of people whose mail will never be challenged, even the first time – such as your boss or your mother. But it recommends you do not bother. The result of this is that most people who download a demonstration copy of the software will send out what is in effect a free ad for Fundi Software, Valmont's company, to everyone who sends them mail.

Since the program offers a free evaluation that is good for checking mail 100 times, this probably means that each downloaded copy will propagate to between 300 and 1,000 more people. After the 100th free use, the program then de-activates until the customer pays a licence fee of $20 (£12) by sending credit card details in an encrypted e-mail.

Mr Valmont believes that more than 10,000 people have downloaded the software. So far, about 300 people have paid their $20 – hardly a good return on investment for a programmer who could have earned much more from contract work. But these things tend to grow exponentially. If MailGuard takes off, Mr Valmont could find that the trickle turns swiftly into a flood.

For technical reasons – it works only with POP3 mail clients – the software won't be of any use to the people who need it most: subscribers to AOL. "I have been talking to the people at AOL, or at least trying to," says Mr Valmont. "They seem to be distantly interested." That seems odd. AOL's service to its customers would be better if it were able to solve the spam problem. A deal with Fundi could bring that solution a great deal closer.

BUSINESS EDUCATION

MBA diary: **Steven Sonsino** loses a stone and his illusions about team working

Don't think, just learn

I woke with a start sitting in the car. I looked at my watch and saw there were still 20 minutes until the accounting exam. Thankfully I hadn't missed it. In fact, there was still time to revise variance analysis before strolling across the road to the exam hall.

It was lucky I went over it again – variance analysis did come up, in a question worth 30 per cent of the marks. But whether my cramming was enough to get me through I won't know until the results are issued later in January.

The episode summarised for me the whole of the first term on Cranfield University's full-time MBA programme. There is simply so much material and so many new concepts to take in that you snatch any spare time you can to study. You have to be ready for the next lecture or the next meeting. You sleep only when you drop.

Exams? Whether they are a realistic or relevant test of a manager's abilities I doubt, but I didn't have time to think seriously about that just then. The exams were just another set of hurdles between me and the Christmas break.

There had been open days at the university where previous students had warned that the workload was unbelievably high. But nothing prepared me for the barrage of books, papers and case studies to read, not to mention presentations to prepare and projects to write. I managed only four to five hours sleep a night over the first term. I was exhausted.

The worst part was that I hardly saw my wife Jacqueline in the evenings, except when we ate together, a ritual I tried to keep up, though my promised weekends off failed to materialise. I tried to explain that the work wasn't hard – with some exceptions – it was just that there was so much of it.

All Jacqueline could see, six weeks into the course, was that I was losing weight. I didn't believe her until Ananya Sen, a colleague in my learning team, said he thought I'd lost weight, too. When I checked I found I'd lost a stone since coming to Cranfield.

Sen was one of five students I spent roughly half my time with during the day. We, and the other six learning teams in our stream, had been painstakingly mixed and matched by Martyn Jones, director of the full-time MBA programme, on the grounds of personal background and work experience.

Lydia van der Meer

Quality circle: a thinner and wiser Steven Sonsino with his learning team at Cranfield University School of Management

Steven Sonsino, owner and director of a small training company in Surrey, in the UK, embarked last September on a one-year MBA programme at Cranfield University School of Management. This is the second instalment of a diary of his experiences during the academic year.

Given such a degree of diversity perhaps some clashes were inevitable.

The teams initially shared the task of reading core textbooks and of preparing notes to summarise key points. No individual could get through the entire reading list, especially not the overseas students for whom English was a second or third language (though some tried).

The system generally worked well and was certainly structured more effectively than my undergraduate biochemistry degree. Two days before each lecture we read core texts or cases individually and then, one day before, the team would compare notes or prepare a short presentation in case we were called on in class. We soon learned which courses it was essential to prepare for (accounting, strategy and marketing) and which we could safely ignore (people in organisations, or human resources).

On reflection, the single most important function of the team, it seemed to me, was to broaden our experience of working intimately with very different people. I envisaged us as a board of directors, pooling our experience and offering different degrees of leadership at different times. But we didn't always work well together, struggling with a mixture of personal priorities and commitments. There were other teams, however, that fared far worse.

A fundamental problem facing those groups seemed not what to do but how to complete the tasks set. Some people clearly felt uncomfortable in teams, for instance, preferring to work alone and bring to the group complete and non-negotiable solutions to cases or presentations. These colleagues were highly focused on getting the job done, but not at all interested in how we got there. Clashes with co-workers were frequent and occasionally bitter.

The saddest comment I heard came from one individual disillusioned with team working: "I am not being assessed on how we work together as a team," he said. For me that completely missed the point of the learning team, if not of Cranfield's entire MBA culture.

Another character who disappointed me was the anonymous student who scrawled the words "patronising prat" on a note about report writing I had been asked to prepare and circulate. I found the note in my pigeonhole with another that had been torn to shreds. Dozens of colleagues went out of their way to say how useful the note had proved, but it was the two childish responses that rankled. They were a timely reminder that not everyone sees teamwork the same way.

Outside the learning team, my time was spent in the lecture theatre, where the most valuable courses for me were marketing and strategy. All the elements of relationship marketing and strategic management integrated seamlessly into a powerful and useful whole, easily applicable to the business I've left behind while I attend the programme.

As I bathe my two-year-old son Christopher and put him to sleep before starting work in the evening, I often think of my work colleagues running the business in my absence. I think that although I'm the one attending the MBA programme it is in fact a collaboration with them. First they are collaborating in running the business now to help put me through the programme. And in the future I hope they will collaborate with me to develop the business using ideas and techniques from the MBA.

I do feel wary, however, of introducing my colleagues to new ideas too quickly. They haven't seen anything of me for four months and there is bound to be a feeling that the concepts are just "Steven's new toys".

I think of my wife as a collaborator, too. Every day throughout the term she has suffered the brunt of my simply not being available to help with Christopher at home. Yet she still makes time to help at Owlets (the MBA partners' toddler group) and to study Spanish on a Monday. She also commutes to her London-based jobshare for five days every fortnight. I don't know how she does it.

I do know, sadly, of at least two couples who have split under the strain of MBA-enforced separation.

MBA costs* – so far

	£
GMAT registration	60
Books	300
PC with Internet access	1,200
Internet phone bill	47
Internet service providers	45
Software (Microsoft office 97)	95
Deposit on rented house	650
House rental (£650 per month)	7,800
Course fee	14,500
Careers seminar (optional)	25
Sub-total	24,722

* Estimated

NEWS FROM CAMPUS

Opportunity – and it's legal

Yale University believes it has spotted an opportunity in the emerging markets, *writes John Authers.*

This month, the university's schools of management and law start a new joint course in "the legal and financial aspects of investing in emerging markets". Intake is divided equally between the two schools, and the course has been heavily oversubscribed by both would-be lawyers and would-be executives.

The course, which Yale believes to be the first of its kind, attempts to offer a "nuts and bolts" guide to dealing with emerging economies – corruption, closed markets and all. True to the school's tradition, it also looks at what economic structures are optimal for economies "in transition from mercantilism (South America) or socialism (eastern Europe) to capitalism".

According to Alan Schwartz, the law professor leading the course, there is already a growing body of research on the subject. However, there are no standard texts on the subject as yet.

"We'll focus on what the economic and legal requirements are to have a capital market in an emerging economy."

Laws on corruption, and how western investors can guard against it, will also account for a unit in the course.

Yale: US, 203 432 5933

Lyon takes a new direction

It is all change at Groupe ESC Lyon, the Lyon graduate school of business. To begin with it has changed its name, to EM Lyon, Ecole de Management.

Second, it has put in place a collaborative agreement with the neighbouring business school in Grenoble to develop complimentary programmes and prevent duplication. The move is intended to reduce costs and Patrick Molle, director general of EM Lyon, believes the collaboration will eventually result in a merger of the two schools.

His aim is to make EM Lyon into an international business with particular emphasis on one discipline: entrepreneurship.

EM Lyon: France, 4 78 33 78 14

Ivey in league with Hong Kong

Canada's Richard Ivey school of business and the university of Western Ontario is to open an Asian campus in Hong Kong in June 1998. The campus will be located in the Hong Kong convention and exhibition centre and Ivey's executive MBA programme will be taught there alongside various other executive programmes.

Ivey, one of the world's largest producers of case studies, already conducts business research in the region through its Asian Management Institute.

Ivey: www.ivey.uwo.ca

Correction: Harvard

Harvard Institute for International Development runs the one-year programme in applied economics for government policy makers with the Ho Chi Minh City Economics university, not Harvard business school, as reported in the article on Vietnam on December 22.

Information for News from Campus should be sent to Della Bradshaw, FT, Number One Southwark Bridge, London SE1 9HL Tel: 44 171 873 4673 Fax: 44 171 873 3950

BUSINESS TRAVEL

Travel Update • Roger Bray

Vaccine warning

Business travellers who are asked to fly at short notice to Uzbekistan should beware. There is an epidemic of hepatitis A in the central Asian country and gamma globulin vaccine, which provides protection against the disease for three months, is in short supply. Some doctors have run out and although chemists may have stocks, finding one could be time-consuming.

Gail Graham of London's Berkeley Travel Clinic says the pursuit of "cleaner blood" following the spread of Aids has had the perverse effect of reducing supplies with sufficient antibodies to combat hepatitis A.

The main alternative to gamma globulin is Havrix, which is effective for 10 years. But it can be much more expensive and you need to have the first of two doses at least a fortnight before departure.

Seoul flights hit

Flights between Seoul and Europe have been hit by Korea's economic crisis. As the plunging won plays havoc with its outbound tourist traffic, Asiana has suspended services to Paris, Frankfurt and Vienna.

It is also one of four carriers to have stopped flying temporarily between Australia and New Zealand and the Korean capital. The others are Ansett, Qantas, and Air New Zealand.

Korean Air has trimmed flights to Europe but has continued to serve all its destinations there, and has kept up its Australian services.

George V revamp

The George V in Paris has closed for a FFr300m (£30.5m) refurbishment which will include the addition of a pool. The 241-room hotel is scheduled to re-open early next year.

Virgin appeals

Battle rages on between Virgin Atlantic and British Airways over proposed new transatlantic routes. Virgin has formally appealed to the UK government against the Civil Aviation Authority's decision to reject its attempt to launch scheduled flights between London and Las Vegas.

After a public hearing late last year, the CAA gave its blessing to BA's plan to start a daily service to Denver, Colorado. The decision was needed because only one US gateway airport remains open under the UK-US air agreement.

Virgin argues that the authority ignored its own policy of awarding new routes to smaller contenders wherever that could be justified.

Unlucky numbers

Check your registration number if you are hiring a car in France. If it ends with the digits 51, which indicate it was registered in Marne, take special car not to leave anything of value in it. Many rental vehicles are registered in the *département*, and the UK Foreign Office warns that thieves have been targeting cars with such number plates.

Laker grounded

Born-again Laker Airways, which operates between Florida and the UK, is to suspend flights between Florida and the UK from Friday. The company described the suspension as temporary and said the airline had suffered a number of problems, including a shortage of slots at Gatwick, which meant many of the airline's business customers landed in Miami too late to catch connecting flights.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	8	8	10	13	17
Hong Kong	22	21	19	17	18
London	13	12	8	8	8
Frankfurt	8	6	5	5	6
New York	4	7	8	3	5
L. Angeles	17	17	18	19	21
Milan	10	10	10	9	10
Paris	10	10	9	8	8
Zurich	5	5	7	5	4

Information supplied by Meteo Consult of the Netherlands. Maximum temperatures in Celsius

African spice on a taste of France

Casablanca's resemblance to its former colonial master can be deceptive, says **Richard Marsland**

Across the wide boulevards of the Place des Nations Unies in the centre of Casablanca, two worlds face one another.

Along the south side, people lounge at tables, drinking coffee or mint tea outside the pavement cafés which are among the more evident signs of the country's French colonial past. Opposite, across several lines of cars, are the high, yellowed walls of the Ancienne Medina – the bustling old bazaar quarter.

To a traveller from Europe, this central area may seem surprisingly familiar, with its banks, hotels, high-rise office buildings, light smog and heavy traffic.

This sense of closeness to Europe is more than architectural. Just 12 miles of water in the Straits of Gibraltar separate Moroccan north Africa from southern Europe, and it is just 41 years since the French former rulers pulled out.

Yet while the European legacy is pervasive in Casablanca, it can be deceptive. "One of the biggest problems with people who come here is that they look out of the window and see cars and skyscrapers, and they think it's Europe," says Alexander Moll, president of the British Chamber of Commerce for Morocco. "It's not. But equally it's not Africa – it has a very different culture all of its own."

According to Moll, Morocco's geographical isolation - cut off by sea to the north and west, and the Sahara to the south and east – has played a major role in its development.

Partly as a result, while deeply felt, the fervour which nationalist and religious issues evokes in Morocco is less outwardly strident than in many other countries in the region. The carnage in neighbouring Algeria has undoubtedly hit Morocco's tourist industry, but there is no hint of any such trouble in Morocco. This is an Islamic country, but if visitors want to drink alcohol and eat pork, they are able to do so.

Yet this tolerance may not extend to letting travellers wander unmolested through the streets. Any attempt by a westerner – especially at the weekend – to stroll alone through central Casablanca is likely to be frustrated by approaches from locals, who will initiate a conversation in fluent French or English before offering a coffee, a guided tour, or some more specialised service.

However, a westerner striding purposefully to a business meeting is less likely to be approached, and an appearance of wandering aimlessly is often what attracts the touts.

On the positive side, the hassle is invariably a nuisance rather than a physical threat. Ab Rutgers, managing director of the international Dutch bank ABN Amro in Morocco, says Casablanca is certainly safer at night that Amsterdam, and he adds that his advice for first-time travellers would be pretty much the same as anywhere else.

"Have a good hotel arranged, and make sure your transport from the airport is arranged by your hotel. Also, while you are here, allow plenty of time for your appointments, and try to be on time. It is highly appreciated. What I have found is that the higher people are up the hierarchy, the prompter they are for their meetings." Some knowledge of French is also virtually a prerequisite.

Business meetings are increasingly conducted in English, but French is the norm for everything else, from eating out to directing a cab. "It's a bit challenging here for someone who is not a native French speaker," comments one US ex-pat.

On the plus side, Casablanca remains free of the crippling traffic congestion which afflicts many cities in emerging economies – and transport around Casablanca is cheap and relatively easy, with a plentiful supply of "petits taxis". These generally have meters, removing the need to haggle, and a passenger would be hard-pressed to run up a bill of more than Dh40 (£2.50) for any journey in town. The 30-mile taxi ride to or from the airport is generally a flat rate of Dh200. Cab drivers are friendly and chatty, but speak little English.

Casablanca is relatively well-served for hotels, with six five-star properties and about 15 four-stars within easy reach of the centre – a reflection of the volume of demand for business accommodation. Reto Grass, managing director of the five-star Le Royal Mansour Meridien, owned by the UK group Granada, says: "What we have here is a corporate city. Eighty per cent of our business is corporate, and the rest is usually tourists spending their first night and their last night here as part of a tour."

Eating out in Casablanca can be very rewarding. Venues often mentioned for business dining include two traditional Moroccan restaurants – the quiet, elegant Ryad Zitoun, and the livelier Al-Mounia. Also highly rated are the French restaurant Le Retro, the Asian Le Tonkinoise, and Le Cabestan, a fish restaurant overlooking the ocean.

As investment flows in, the real challenge for Casablanca is likely to be ensuring that its environment and infrastructure can cope – and that it can avoid the garbage and gridlock which have afflicted many fast-growing cities elsewhere in the world.

Managers count the real cost of deals

One of the great complaints of corporate travel managers is that all their travellers think they can do the job better.

What those travellers often fail to realise is that by buying their tickets elsewhere, they are upsetting lucrative agreements that ultimately would save their company far more money – up to 25 per cent in some cases.

This has just happened to a corporate client of business travel agency Hogg Robinson BTI. The client missed out on a £200,000 rebate from an airline which it would have earned if it had generated minimum agreed levels of spending with the airline over the course of a year.

The problem was that the rebate was to be paid retrospectively, so at the time of purchasing the ticket prices looked less attractive than they would ultimately have been.

Mike Platt, Hogg Robinson director of commercial affairs, argues this is a flaw in the system. "What is the point of an airline saying it is going to offer an incentive but keeping the amount a secret? This is why clients want up-front net deals."

Hogg Robinson has therefore developed a ready-reckoner which will show travellers how much less their negotiated ticket is likely to cost once commission is removed and the rebate cheque posted at the end of the year.

To ensure travellers stick to preferred carriers, there are three ways of keeping them in line:

- Refuse to allow them to travel with any other airline. This is largely effective but not watertight. Andrew Solum, travel manager for satellite communications company Inmarsat, says his travellers show 96 per cent compliance in using approved carriers.
- Good public relations. The Hogg ready-reckoner is one example. The Inmarsat approach is to post details of its route deals on its corporate intranet, explaining their logic and the potential savings.
- Ensure that the travellers also benefit. This can be done by negotiating extras such as free lounge access but even more crucially, by ensuring that rebates are passed on to the departments whose spending generated them in the first place.

Mr Solum says sticking to an airline relationship can bring extra benefits. "We have had an agreement for several years with one Asian carrier and because it recognises our value, it occasionally gives us upgrades to first class," he says.

Amon Cohen

ARTS

OPENINGS

LONDON
The National Gallery has brought together several rare works associated with Jan van Eyck, one of the great Netherlandish painters of the 15th century. The exhibition, opening on Wednesday, is aimed at exploring the relationship between paintings such as the Gallery's own Arnolfini Portrait (right), and "The Annunciation", on loan from the National Gallery of Art in Washington.

Hand-modelled figures, architectural models and watercolours by Thomas Schütte (b.1954) are on show at the Whitechapel Gallery from Friday until mid-March. This is the German artist's first major show in the UK.

Never Land, the latest play by the exceptionally talented young playwright Phyllis Nagy, has its premiere tomorrow at the Royal Court Theatre Upstairs (Ambassadors Theatre). Steven Pimlott directs.

BARCELONA
A retrospective of Amadeo de Souza Cardoso (1887-1918) opens at the Fundación Juan March on Friday. Souza Cardoso mingled with key figures of the Paris art scene before the First World War and was a leading member of the early 20th century Portuguese avant-garde. The show includes more than 50 paintings and drawings.

GLASGOW
The Celtic Connections festival, a folk music extravaganza organised by the Royal Concert Hall, has gone from strength to strength since its debut five years ago. Pianist-composer Michael O'Suilleabhain and the Irish Chamber Orchestra head the bill in the opening concert on Thursday. Highlights over the following two weeks include James Taylor (inset right), The Dubliners (right), Old Blind Dogs, Hothouse Flowers and an all-star ceilidh. The Glasgow Film Theatre is mounting a season of Scottish and Gaelic shorts, and there will be readings by Scottish and Irish authors at Waterstone's new Sauchiehall Street store.

COLOGNE
An exhibition of Rembrandt prints and drawings opens at the Wallraf-Richartz Museum on Saturday. It runs till March 25.

MILAN
Riccardo Muti conducts a Beethoven cycle at La Scala over the next three months. In the first programme on Sunday, he tackles the first and fifth symphonies, followed by the second and third symphonies on January 22. Each programme is repeated twice.

CLEVELAND
On Thursday at Severance Hall, Evelyn Glennie gives the world premiere of a new percussion concerto by Christopher Rouse (b.1949), in a Cleveland Orchestra programme conducted by Christoph von Dohnányi (below). The performance is repeated on Friday and Saturday, and Glennie will also give the European premiere at London's Barbican Centre in April.

NEW YORK
Mark Ravenhill's audacious 1996 play *Shopping and Fucking* has its American premiere on Wednesday at the New York Theatre

In the spirit of Bohemia

The music of Czech composer Martinu is ripe for reappraisal, writes **Andrew Clark**

Before me lay a monolithic slab of white marble, dwarfing the nearby gravestones. "We thought you would like to lay these," came a voice from behind me. I turned to find the mayor of Polička proffering a bouquet of flowers, which I duly placed on Bohuslav Martinu's grave. At the time, I found this gesture rather touching. Only later did I learn it had been laid on for every official guest during the Communist 1980s.

I doubt if visiting music critics receive this sort of welcome today. My trip to Polička, three hours' drive east of Prague, took place in January 1990, just after Czechoslovakia's velvet revolution. The new mayor was a former dissident, but the old formalities were still being observed.

Visits to composers' birthplaces, homes and graves often disappoint those who seek an echo of the inspiration behind their work. Polička is an exception. Martinu's gravestone may be a Communist edifice, erected after his remains were moved from Switzerland in 1979, but the town itself has changed little since the composer's lifetime. If you climb the 200 steps of the church tower to the room where he was born and raised, you'll discover a space less than five metres square, commanding a panorama over rolling Bohemian countryside. At the local museum you can see Martinu's witty cartoons, in which the humans resemble mice – much as they do from the church tower.

Since that visit, I have found it hard to divorce the sound of Martinu's music from the sounds of Polička, where church bells, folk melody and Czech pastoral lyricism seem to inhabit the air. Fortunately, a visit to Polička is not necessary to get hooked, as audiences in London can discover this week. Starting tonight, there are five days of Martinu-related events at the Guildhall School of Music, including UK premieres of the ballet *The Strangler* and the opera *Ariane*. On Friday, the focus will move to the Barbican, where the BBC has organised a weekend of concerts. It is the broadest and most concentrated spread of Martinu's music ever mounted outside the Czech Republic.

Why the sudden fuss? One of the reasons is that the BBC Symphony Orchestra's principal guest conductor, Jiří Bělohlávek, believes passionately in the music and is an outstanding interpreter of it. On a wider plane, Martinu seems ripe for reappraisal. Born in 1890, he became one of this century's most prolific composers, with well over 400 works to his name. He was befriended by leading musicians of his day, and his style is instantly recognisable: springy, syncopated rhythms, bright colours, Slavonic energy and piano-inflected harmonies.

Despite these advantages, Martinu has always hovered on the fringe of the repertoire. For most of his life he was an exile – voluntarily so in Paris (1923-40), where he studied with Roussel, imbibed jazz and mingled with artists of all disciplines and nationalities. By the late 1930s, with works like *Špalíček* and the Double Concerto under his belt, he was beginning to make his mark with influential figures like Munch and Ansermet – not to mention the musical establishment back in Prague, where Talich conducted the premiere of *Julietta* in 1938. But war intervened, preventing him from becoming a European figure.

Arriving in the US in 1941, Martinu had to start all over again. Taken up by Tanglewood, invited to teach at Princeton and championed by Koussevitzky, he was more immediately successful than two fellow émigrés, Bartók and Schoenberg. A near-fatal accident in 1946 severely shook him, delaying a planned return to Prague. When he finally exchanged a McCarthyite US for Cold War Europe, the newly-installed Communist ideologues at home wanted nothing to do with him. At the age of 60, Martinu found himself cut off from his homeland and denied an honoured position as the greatest living Czech composer. He spent his final years in Nice, Rome and Basle, where he died in 1959.

This nomadic existence hindered the spread of his music. Martinu was free-and-easy with his manuscripts, scattering them among more than 10 publishers in Europe and the US. Until the Martinu Foundation began to coordinate efforts in the early 1990s, no one felt much obligation to promote his music – so it was up to performers to find out which publisher had which work they wanted. Some publishers allowed their Martinu catalogue to go out of print. Several manuscripts are lost; others are thought to be in the hands of private individuals without them realising it.

The shift in musical taste after the war was another factor behind Martinu's neglect. In a Europe swept by serial orthodoxy, his tonal idiom was considered passé. And when Supraphon started a Martinu discography in the 1960s, few of his masterpieces were included, because it could not get the recording rights. Only now, thanks to the CD boom and the switch to more accessible music, is he getting a proper hearing.

Having a champion of Bělohlávek's calibre undoubtedly helps; so does sympathetic treatment of the stage works, like David Pountney's recent Opera North production of *Julietta*. It is time great orchestras like the London Symphony put their virtuosity at the service of the symphonies. And a thorough assessment of the life and works is long overdue: Jaroslav Mihule and Graham Melville-Mason are collaborating on a volume for the Phaidon 20th-century composer series, to be illustrated by unpublished photos left by Martinu's widow.

Martinu's music is infused with the pastoral sounds of his birthplace, Polička

Martinu still suffers from prejudice: that he followed every fashion of his day; that he churned out too much music for his own good; that many of his works promise more than they deliver; that he regularly ran out of steam by the last movement; that his spontaneity and rhythmic vitality were achieved at the cost of structure and workmanship.

Comb the catalogue and you'll find evidence to support each of these arguments. Much of his output falls short of great. But that's missing the point. You won't discover the clue to Martinu in the violin concertos or the Sixth String Quartet, but you *will* if you listen to the First Cello Concerto, *The Opening of the Wells*, the Second Piano Quintet and the Fourth Symphony – all of which feature in the BBC's Barbican weekend.

People who knew Martinu – like Vilem Tausky, who introduced the symphonies to the UK in 1950 – remember him as a tall, modest man who enjoyed good company. He was a bit of a dreamer, constantly searching for the unattainable. Like Michel, the man caught up in the surreal world of *Julietta*, it took the form of a fixation with the ideal woman – first Vitulka Kaprálová, a glamorous young composer who died fleeing Paris in 1941, and then Roe Barstow, a student who nursed him after his accident at Tanglewood.

He was equally absorbed by the new: friends used to joke that you only needed to show him the latest gadget and he would write music for it. The wonderfully witty *Three Wishes* (1929) is a pioneering film-opera, *The Comedy on the Bridge* (1937) one of the first for radio. When television was in its infancy, Martinu composed two operas for the new medium. He was an inveterate experimenter.

Although Martinu did not return to his homeland after 1938, he never forgot Polička. In his New York apartment, he had a picture of the town on his mantelpiece. On the manuscript of the *Hymn to St James* (1954) lies an inscription linking the piece to the church where he was born. And in the vocal and choral works of his last years, the spirit of Bohemia is unmistakeable. Long before my visit to Polička, I had been getting to know this music. It intrigued and entranced me. That's why I was glad, that cold January day, to pay my respects at his final resting place.

Barbican: 0171 638 8891.

Ballet

Cinderella saves the situation

It is hard to know what to make of the present state of the Royal Ballet. Forced into a gypsy life; haunted by the variously menacing spectres of Opera House inadequacy and improvidence, of repertoire that seems guided only by marketing philistinism, of ghastly stagings that deform the classics, it demands our sympathy – and, even more, our concern.

As with a dear friend fallen on hard times, we feel we must sympathise. But self-inflicted wounds don't really merit much balm, and the *Cinderella* with which the company enters the New Year at the Royal Festival Hall looks more like a failed suicide than an evening out at the ballet.

The shelf-like stage (which English National Ballet and the Kirov have, in their time, used with a certain finesse) defeats the production. It is truncated in its scenery (no bad thing, but not in this crude way) and cramped in its dances. The stage is also very forward-projecting for performers, with every least action magnified.

Thus the curse which lies on this ballet – the Ugly Sisters in post-Ashton, post-Helpmann performance – becomes even more horrid. The primping and slapping and falling-over, the feeble copying of the great originals' manner, have all the rib-tickling potential of a motor-way pile-up, and induce the same feelings of distress.

I have just seen *Cinderella's* first two performances, led by Sylvie Guillem and Belinda Hatley: at neither of them could I bear the thought of the final act's rampaging by the Sisters, and admirable as the two ballerinas were, I fled (and, I report, was not alone in my escape plan).

At Tuesday's opening, Sylvie Guillem was the heroine in every sense: none of the other interpretations bore close examination. Not for Guillem too much dainty pathos. The dance is bright and beautiful. And so is her characterisation. Vastly touching are her tears as she looks at her mother's portrait – Guillem's sense of verismo is unfailingly true, and as she stands, hand on chimney-breast, weeping, your heart goes out to her – and her gaiety bubbles through the steps as she plays with the broom. In the ballroom she is happiness itself, savouring every ecstatic moment.

Her partner, Inaki Urlezaga, wore throughout the expression of a man who realises that he is both making his debut in a role and Partnering A Star. Guillem, radiant, made us forget all the surrounding inadequacies.

So, in her quieter way, did Belinda Hatley, giving a more traditional Royal Ballet interpretation: sweet, tender, well mannered in step. Everything was touched by her natural grace, and the role lived. Her Prince was Michael Nunn, admirable in manner (if rather less so in aerial turns) and making a shadowy figure sympathetic.

The other prince was the Kirov's conductor, Viktor Fedotov, teaching the Royal Ballet Sinfonia how Prokofiev should sound: by the second performance Fedotov's characteristic clarity and pungency of timbre gave the staging some much-needed distinction.

For connoisseurs of windy prose, I recommend the statement about The Royal Ballet which appears on the first page of the season's programme: it reads like something from the prospectus of a South Sea Bubble flotation.

For ballet-lovers, I report that after the middle of this month there are no scheduled classical dance performances in London until June. There are, however, Eurostar and the Paris Opéra Ballet.

Clement Crisp

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

EXHIBITIONS
Rijksmuseum
Tel: 31-20-673 2121
Medieval illustrated histories: the Hausbuch and its Master. Drawings, prints and a panel painting by the the Master of the Amsterdam Cabinet, including the 64 sheets of the Hausbuch, which has been taken apart for restoration; to Jan 18

■ BALTIMORE

EXHIBITIONS
Baltimore Museum of Art
Tel: 1-410-396 6310
A Grand Design: The Art of the Victoria and Albert Museum. First stop of a five-city North American tour of selected objects from the V&A's collection; to Jan 18

■ BERLIN

CONCERTS
Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Nikolaus Harnoncourt in works by Beethoven; Jan 12, 16, 17, 18

DANCE
Deutsche Oper
Tel: 49-30-34384-01
Deutsche Oper Ballet: Rosalinde, choreographed by Ronald Hynd to music by J. Strauss; Jan 15

■ CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
Amistad: world premiere of Anthony Davis's new work about the 19th century anti-slavery campaign. Dennis Russell Davies conducts a production by George C. Woolfe; Jan 15

■ LONDON

DANCE
Royal Festival Hall
Tel: 44-171-928 8800
The Royal Ballet: Cinderella; Jan 12, 13, 14, 15, 16, 17

EXHIBITIONS
Tate Gallery
Tel: 44-171-887 8000
The Turner Prize 1997: display of works by each of the nominees on this year's all-woman shortlist: Christine Borland, Angela Bulloch, Cornelia Parker and Gillian Wearing; to Jan 18

Victoria and Albert Museum
Tel: 44-171-938 8500
Carl and Karin Larsson: Creators of the Swedish Style. Recreates five rooms of the famous house at Sundborn, and examines its extraordinary impact on the interior design of our century; to Jan 18

■ LOS ANGELES

OPERA
L. A. Opera, Dorothy Chandler Pavilion
Tel: 1-213-972 8001
www.laopera.org
Salome: by R. Strauss. Revival of Sir Peter Hall's celebrated production. Conducted by Richard Hickox, with Hildegard Behrens in the title role; Jan 15, 18

■ MADRID

EXHIBITIONS
Fundació "la Caixa"
Tel: 34-1-435 4833
1898, Fin de Siècle Spain: Daily Life. Historical exhibition designed to reconstruct a picture of life in Spain at the end of the last century. Painting is its mainstay – also included are books, newspapers and other objects of the time; from Jan 13 to Mar 29

Museo Nacional Centro de Arte Reina Sofia
Tel: 34-1-467 5062
Fernand Léger (1881-1955): retrospective comprising some 220 paintings and drawings by the early modernist. The exhibition will emphasise the artist's relationship with architects, as well as his work for the ballet and cinema. Previously seen in Paris, the exhibition will transfer to New York; ends today

■ MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
Il Cappello di Paglia di Firenze: by Rota. Conducted by Bruno Campanella in a staging by Pier Luigi Pizzi; Jan 15, 16, 17

■ MUNICH

EXHIBITIONS
Haus der Kunst
● Ellsworth Kelly: retrospective of the American abstract painter and sculptor, b. 1923, now in his 70s and one of the most distinguished living artists. Organised with the Guggenheim Museum and previously seen in New York, Los Angeles and London; to Jan 18
● Joel Shapiro: sculptures 1993-1997; to Jan 18
● Juliao Sarmento: display of recent works by the Portuguese painter; to Jan 18

■ NEW YORK

DANCE
New York City Ballet, New York State Theater
Tel: 1-212-870 5570
Jewels: by Balanchine, to music by Fauré, Stravinsky and Tchaikovsky; Jan 14, 17

EXHIBITIONS
Whitney Museum of American Art
Tel: 1-212-327 2801
● The Warhol Look/Glamour Style Fashion: major retrospective of around 500 works of art, following Warhol's career from the 1940s to the 1980s, and also including works by his contemporaries; to Jan 18
● Fashion and Film: running concurrently with the Warhol show, this film and video series traces the relationship between the two industries, from early fashion newsreels and the studio designers of the 1930s to the present; to Jan 18

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● Capriccio: by R. Strauss. New production by John Cox, with sets by Mauro Pagano; Jan 12, 16
● La Cenerentola: by Rossini. New production conducted by James Levine in a staging by Cesare Lievi, with designs by Maurizio Balò; Jan 15
● The Rake's Progress: by Stravinsky. New production by Jonathan Miller, conducted by James Levine. Cast includes Dawn Upshaw and Samuel Ramey; Jan 13, 17

■ PARIS

CONCERTS
Théâtre des Champs Elysées
Tel: 33-1-49525050
Vienna Philharmonic Orchestra: conducted by Lorin Maazel in works by Schubert, Maazel and Ravel. With flute soloist Wolfgang Schulz; Jan 14

EXHIBITIONS
Musée Carnavalet
Tel: 33-1-4272 2112
Paris and the Parisians in the time of Louis IV: more than 300 engravings, which together create a vivid impression of 17th century Paris. Including portraits, images of the city and its monuments, as well as proverbs, allegorical works, and almanacs; to Jan 18

■ SAN FRANCISCO

OPERA
San Francisco Opera, War Memorial Opera House
Tel: 1-415-864 3330
www.sfopera.com
● Le Nozze de Figaro: by Mozart. Conducted by Ivor Bolton in a staging by Graziella Sciutti; Jan 14, 17
● Tosca: by Puccini. Conducted by Maurizio Barbacini in a staging by Lotfi Mansouri. Georgina Lukacs sings the title role; Jan 13, 16, 18

■ VIENNA

EXHIBITIONS
Jüdisches Museum
Tel: 43-1-535 0431
www.jmw.at
Max Liebermann: selection of paintings by the German Impressionist dating from the period 1900-1918, during which the Jewish haute bourgeoisie flourished. Also included are French Impressionist works which Liebermann collected; to Jan 18

KunstHausWien
Tel: 43-1-712 0495
Herb Ritts: first European retrospective of work by the American photographer. Previously seen in Boston, the exhibition ranges from portraits of Hollywood celebrities to images of Africa; to Jan 18

■ ZURICH

EXHIBITIONS
Kunsthaus Zurich
Tel: 41-1-251 6765
Arnold Böcklin, Giorgio de Chirico, Max Ernst: Voyage into the Unknown, comprising 130 paintings, collages and sketches; to Jan 18

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Mark Gay of FTTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS

Personal View • **Richard Haass**

Time to revisit sanctions

The US hard line on Iraq is putting pressure on the coalition against Saddam Hussein

For sound reasons, economic sanctions often get a bad rap, but in the case of Iraq, at least, they have done far more good than harm. Even when sanctions failed, as was the case when they could not dislodge Saddam Hussein, the Iraqi president, from Kuwait, the fact they were tried and found wanting made it less difficult to pull together the coalition that subsequently fought and won the Gulf war.

For nearly seven years since, the ban on Iraqi exports has encouraged Mr Saddam to comply with UN demands that he give up all nuclear, chemical and biological weapons, as well as ballistic missiles with a range of 150km. As Bill Clinton, US president, regularly points out, international inspectors have destroyed far more Iraqi weapons of mass destruction than all the US stealth bombers and cruise missiles combined.

Mr Saddam has also forfeited at least $100bn in revenues from lost oil exports. The result is that Iraq today is a far weaker country – militarily and economically – as a result of economic sanctions than it would have been in their absence.

Still, there are limits to what economic sanctions can accomplish. Despite their cost, Mr Saddam has refused to grant unconditional access to the weapons inspectors, almost certainly because he is hiding forbidden technologies or materials. More to the point, he continues to hold power. Sanctions have not yet led to him being ousted.

In addition, the international consensus that has made sanctions possible is fast eroding. To some extent fatigue is to blame. Given enough time, people and governments tend to learn how to work around sanctions. Also a factor, particularly in French and Russian calculations, are commercial considerations stemming from Iraq's oil wealth, estimated to be second only to Saudi Arabia's.

Support in the Arab world for sanctions, meanwhile, is almost extinct. In part this reflects a general disillusionment with the US, which is seen as doing much more to isolate Iraq than it is to promote peace between Israel and its neighbours. Coolness towards continued sanctions also reflects general resentment (shared by many in France and Russia) of the dominant US position in the post-cold war world.

Even more, though, Arab and Islamic opposition to continued sanctions stems from a concern over their perceived impact on the Iraqi people.

Most Arabs have little love for Mr Saddam, but sanctions are widely judged as hurting innocents while sparing the leadership. It matters not that Iraq has been able to import food and medicine from the outset. Nor are people impressed that thanks to an American initiative Iraq can sell up to $4bn worth of oil a year to raise additional funds to pay for food and medical imports; or even that it was Mr Saddam who resisted taking advantage of this opportunity in a cynical yet largely successful effort to undermine international support for sanctions.

> The time has come for US policy to revert to what it was initially. Sanctions are a means to an end, not an end in themselves

Making matters worse for US diplomacy has been a lack of clarity on what it would take for Mr Saddam to gain relief from sanctions. UN Security Council resolution 687, the "mother of all resolutions" passed in the spring of 1991, states that the ban on Iraqi exports will be lifted once Iraq fully eliminates its weapons of mass destruction.

This was the US interpretation at the time. But on various subsequent occasions, the US government has stated that even this would not be enough. The goalposts have been moved so that Mr Saddam now has to comply fully with all relevant UN resolutions targeting Iraq before sanctions will be eased. Understandably, this US stance fuels the perception that there will be no sanctions relief for Iraqis so long as Mr Saddam is in power.

One result of this policy has been to eliminate any incentive the Iraqi president might have had to go along with the demands of the weapons inspectors. Perhaps more important, the changed US position has reduced international support for sanctions and for related policies designed to keep Mr Saddam down.

The time has come for US policy to revert to what it was initially. Sanctions are a means to an end, not an end in themselves. The priority should be to deny Iraq nuclear, biological or chemical weapons – and to build international support for ensuring that Mr Saddam complies with this demand.

Toward this end, the Clinton administration should declare that Iraq's full compliance with Resolution 687 will result in a lifting of the exports ban. The only condition beyond compliance would be Iraq agreeing to a mechanism in which receipts for oil and other exports would not flow directly into government coffers, but through the UN.

This would ensure that no funds could be used for purchasing arms (which would remain forbidden) and would pay for the ongoing work of weapons inspectors (which would continue in perpetuity). Proceeds would also be used to purchase food, medicine and other consumer goods for the Iraqi people, to compensate Kuwaitis and others for war losses, and to pay for Iraqi debts. This latter provision should help encourage Russia and France to support such a move.

Why should Washington adopt this approach? The time has come to accept reality: economic sanctions will not oust Mr Saddam – other policy tools and the Iraqis themselves must accomplish that. And keeping sanctions in place so long as he remains in power could undermine international support for ridding Iraq of its weapons of mass destruction.

In addition, adopting a new declaratory policy toward sanctions is preferable to expanding Iraq's ability to export additional amounts of oil to buy food, something that would not be enough to assuage Arab concerns but would appear to reward Mr Saddam for recent non-compliance.

It is important to keep in mind that, for now, what would change is declaratory policy only. Nothing would actually happen until Mr Saddam complied fully. But a shift in declaratory policy could help shore up the coalition necessary to keep sanctions in place – and to build necessary support for the massive use of air power that will be required to coerce Mr Saddam's acceptance of unrestricted inspections if he continues to insist that palaces and other sites are off limits.

The author is director of foreign policy studies at the Brookings Institution. He was a senior adviser to George Bush, US president, in the 1990-91 Gulf crisis

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

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Why a little inflation can do more than a little harm

From Dr Helga Hoffmann.

Sir, The mild inflation advice in Robert Chote's article, "A little of what you fancy" (January 5), is like what in Brazil has been deservedly called "the poisonous pill of Dr Dornbusch" – because of the Massachusetts Institute of Technology economist's recommendation that a little devaluation (and the ensuing little inflation) wouldn't harm. Well, see the result of that advice in south-east Asia.

The problem with the cross-country comparison Mr Chote reviewed is that it ignores specifics and history in each country. The pursuit of stabilisation policies in Brazil, even at its present inflation level of 4 per cent per year, is not too zealous because inflation was 50 per cent per month just 3½ years ago and "inflationary memory" has not yet been eradicated from the economy.

Helga Hoffmann,
chief, environment and development division,
ECLAC-Economic Commission for Latin America and *the Caribbean*,
PO Box 179-D,
Santiago, Chile

A bad sign of crime

From Dr Mark Galeotti.

Sir, When is the apparent absence of crime not a good sign ("Moscow's recorded crime rate falls 20 per cent", January 6)? In part when, as your correspondent notes, it stems from an unwillingness to report incidents to Russia's heavy-handed and corrupt police.

But the fall in overt gangsterism in Moscow and St Petersburg largely reflects an end to their gangs' turf wars. Now that the gangs have established their borders, their pecking orders and their authority, they simply don't need to take their wars to the streets. Instead, as the increasing toll of (unsolved) assassinations of senior business, media and political figures shows, they can focus on their real aim: accumulating money and political power.

This may make life easier for the average Muscovite, but, given that it involves the ever-deepening penetration of Russia's still-embryonic political and economic structures, it should ironically be all the more worrying for the outside world.

Mark Galeotti,
director,
Organised Russian and Eurasian Crime Research Unit,
Keele University,
Staffs ST5 5BG, UK

Angling on convergence

From Mr Mark Dragoumis.

Sir, When Sir David Hannay – as quoted by David Buchan ("Tense issue hard to defuse", January 5) – says that the "parallel talks" between Cyprus and the EU on the one hand, and between the two Cypriot communities on the other, "may converge over two to three years on a single point" he is perhaps being slightly over-optimistic. What he is certainly not doing is to use "a metaphor defying Pythagoras" as your correspondent puts it. The postulate that two parallel lines never meet is Euclid's.

Mark Dragoumis,
87 Alderney Street,
London SW1V 4HF, UK

A poor economic tool

From Mr Mark H.I. Radcliffe.

Sir, Your edition of January 6 included two articles on exchange rates, exposing dangerous fallacies. Wolfgang Münchau suggests ("Euro exchange rate policy is still the big uncertainty") that the Emu and US economic zone weights are roughly equal. However, this fails to recognise the level of goods and commodities traded world wide in US dollars, and the relationship between Asia and the US dollar, which means that the US dollar will still be dominant after Emu.

Messrs Groom and Wolffe ("Quick, quick, slow") then correctly highlight the differences in the UK between the manufacturing and service sectors caused by a highly valued pound sterling. The relationship of the pound against the D-Mark or US dollar has applied since the early 1980s, and each time the manufacturing sector has had to bear the brunt. However, ultimately the service industries will suffer because, for every person employed in the manufacturing sector, there is another dependent employee in the service sector, and increasingly so as more work gets sub-contracted.

Until a better tool than interest rates can be found to adjust the economy the chances of steady economic growth will remain elusive.

Mark H.I. Radcliffe,
The Malt House,
Upton,
nr Andover,
Hampshire SP11 0JS, UK

Different, but not necessarily enjoying an advantage

From Professor Douglas McWilliams.

Sir, Your headline, "Paris 'tops London in economic benefits' " (January 8), gives a misleading impression of the findings of *Two Great Cities*, the study of the London and Paris economies carried out by the Centre for Economics and Business Research and associates.

The study compares each of the cities' strengths and weaknesses. London, in fact, has huge advantages over Paris in attracting internationally mobile financial and business service companies. But, compared with Paris, it fails to spread the prosperity as effectively as possible. This, the study indicates, is because, whereas a high proportion (about 40 per cent) of Paris's tax payments are kept locally and reinvested in transport infrastructure and education, most of London's tax payments are received by central government and spent over the whole of the UK. So, compared with Paris, London under-invests in transport and education.

One of the interesting conclusions of the study is that this under-investment does surprisingly little to damage the position of London's great successful industries. But it does add to London's social problems, increasing poverty and unemployment, particularly outside central London. The real message of the study is that both cities can learn from each other.

Douglas McWilliams,
chief executive,
Centre for Economics and Business Research,
9-12 Basinghall Street,
London EC2V 5NS, UK

John Ridding on the economic problems testing Hong Kong nerves and the administration's attempts to keep up morale

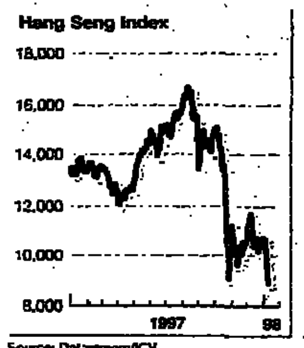
Crisis of confidence

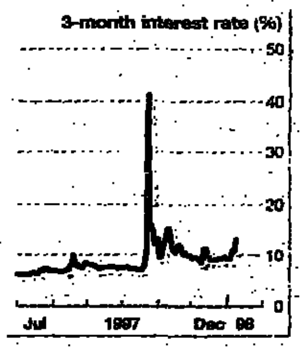
Plunging share prices; a sharp decline on the property market; a lethal new strain of flu; and now a crisis at Peregrine, local champion of the investment banking industry. Nerves are being sorely strained in Hong Kong.

Ever since the harbourfront cannon misfired its traditional New Year salvo, things have turned increasingly bleak. "A whole range of problems is making people anxious", says Anthony Cheung, vice chairman of the Democratic Party. "It is not panic, but there is serious concern", says Michael de Golyer, head of the Hong Kong transition project at Baptist University.

Such anxieties pose a crucial test for Hong Kong's resilience as it confronts the latest vicious twist in Asia's financial turmoil. After a surprisingly smooth transition from British to Chinese sovereignty last July, regional crises are now shaking the territory, raising renewed fears for its currency link to the US dollar, the linchpin of Hong Kong's financial system.

Hong Kong: an anxious time





Source: Datastream/ICV

The Hong Kong government has maintained a stance of studied calm. Tung Chee-hwa, the head of the post-colonial administration, stresses that Hong Kong's economic fundamentals are much more robust than those of its ravaged regional rivals and dismisses any notion of dropping the peg to the dollar. Donald Tsang, financial secretary, argues that the territory will be the first to emerge from regional turmoil. He points to foreign exchange reserves of US$90bn and the robust mechanism of the territory's currency boards as evidence of the strong defences behind the link to the US dollar.

The big question concerning the peg, however, is not foreign reserves but public confidence. "The survival of the Hong Kong system is a confidence issue, not an economic one", says the senior economist at one investment bank. "If Hong Kong individuals lose confidence, then the move from Hong Kong dollars into US dollars would spell the end of the peg." Few doubt the disastrous financial consequences that would bring.

Confidence is now under assault. The latest blow to morale came last Friday with the sudden announcement that Peregrine, one of Hong Kong's biggest investment banks and a symbol of the territory's financial industry ambitions, had failed to secure a rescue agreement with Zurich Group of Switzerland. Unless a white knight rides quickly to the rescue, a barrage of business restrictions limiting its activities imposed by the territory's financial authorities is likely to lead to Peregrine's collapse.

"Only two years ago they were being touted as a global investment bank", said Mark Konyn, director of Dresdner RCN, the fund manager, "so failure would be a psychological blow." Although the collapse of the Zurich deal was announced after the stockmarket closed in Hong Kong on Friday, Hong Kong shares traded in London plunged, prompting predictions of a rout in the territory today.

Other blows have already been sustained. Interest rates raised to defend the exchange rate peg to the US dollar have prompted a 20 per cent fall in property prices. A 50 per cent fall in the number of property transactions in December, year on year, and further price cuts by big developers, suggest little prospect of respite.

Tourism and hotels have been still harder hit. Even before "bird flu" scared away potential visitors, the ranks of sightseers had been ravaged by the relative rise in the Hong Kong dollar and "Hong Kong fatigue" after the handover. Hotel occupancy rates fell to 67 per cent in September, compared with 88 per in the same month last year. Cathay Pacific, the territory's de facto flag carrier, has seen its shares fall so far that the company is now valued at less than its fleet of aircraft.

The impact has also fed through into restaurants and retail outlets, with the feel-good factor of late summer now a distant memory. "Business has dried up", says a Kowloon restaurant owner. Dickson Poon, head of Dickson Concepts, the luxury retail group, describes conditions as the worst in memory.

For many commentators, worse may be yet to come. The sharp falls in the benchmark Hang Seng index, which has lost 17 per cent since the beginning of the year, reflect increased jitters over the Hong Kong dollar and a fear of further attacks.

"The only way is down", says Mark Mcfarland, senior economist at Peregrine Securities, predicting growth will halve to 2.3 per cent this year. "We have not seen the impact yet in terms of bankruptcies and employment", warns Dr Cheung of the Democratic Party.

Senior government figures accept there has been suffering. "Hong Kong people are feeling the pinch", says Mr Tsang. But they see no reason for the setbacks to shake confidence. In the case of Peregrine, the financial secretary says there is no systemic risk, hence his dismissal of the idea of support from public funds. Officials from the Securities and Futures Commission, the industry watchdog, say the number of retail investors is limited to a few hundred.

The HKMA, the de facto central bank, notes the robust state of the territory's commercial banks, citing an average capital adequacy ratio of more than 17 per cent. Keith Irving, banking analyst at Merrill Lynch, says that unlike elsewhere in the region, the issue for banks is one of profitability, not safety.

More broadly, Mr Tsang believes the Hong Kong people are resilient and supportive of the peg. Hong Kong dollar deposits have held steady, say officials, citing their share of 57 per cent of the total at the end of November, up slightly on the share in 1996. Between October and November, however, the value of Hong Kong deposits slipped 1 per cent, while US dollar deposits rose by 4 per cent.

There are other caveats to Mr Tsang's optimism. The first is that resilience in Hong Kong can give way to panic. A run on a small bank last autumn and a bizarre run on a chain of cake shops, feared to be facing bankruptcy, underlined the fragility of sentiment and the speed with which anxiety can take hold.

The second danger is that the present crisis will increasingly chip away at confidence. "It is a bit like Chinese water torture", says one western investment banker. "The longer it goes on, the less bearable the pain."

COMMENT & ANALYSIS

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
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Time to act on cloning

The debate over human cloning, which first exploded last year after the birth of Dolly the Scottish sheep, has been re-ignited by a maverick American scientist called Richard Seed. The original announcement about Dolly – the first cloning of an adult mammal – was scientifically significant enough to justify the avalanche of publicity it received. In contrast, Mr Seed's plan to set up a cloning facility in Chicago for infertile couples has received an absurd amount of public attention.

Although Mr Seed has carried out some embryo research, his background is in physics. He has neither a medical qualification nor a recognised academic position and his views are eccentric. (For example he said on radio: "Cloning and the reprogramming of DNA is the first serious step in becoming one with God.") In other words, there is little sign that Mr Seed has either the resources or the expertise to overcome a formidable challenge: how to clone humans safely and efficiently.

However, even if Mr Seed himself need not be taken too seriously, governments – and the biotechnology industry – should heed the international wave of public outrage that greeted his plans. If they take no action, other better qualified medical entrepreneurs will move into human cloning, tempted by both the scientific challenge and the large amounts of money to be made from infertile people who are desperate to reproduce themselves. Then the consequences could be disastrous. Imagine the public outcry if it turns out that hundreds of precious human eggs or embryos have been destroyed in the quest for a clone, or if the first cloned babies have serious handicaps.

Carl Feldbaum, president of the US Biotechnology Industry Association, is right to warn that the greatest outside threat to the emerging biotech companies (and the university researchers who depend on them) will come from the mishandling of a serious ethical issue. And no current issue has more potential to undermine public confidence in the whole field of genetic and biological research than human cloning.

The best move at this stage would be for governments worldwide quickly to introduce a temporary ban on human cloning. The moratorium would be reviewed after a reasonable period – perhaps five years – in the light of scientific and ethical developments. And the ban must safeguard legitimate research in areas related to cloning, such as the growth of different organs in embryos.

Most European countries already have regulations that effectively ban human cloning. The weak link is the US, where several bills have been proposed but none has made progress. President Clinton is right to call on Congress to act.

Talking to Iran

In responding to the overtures of Iran's President Mohammed Khatami, the US faces a dilemma like that posed 10 years ago by Mikhail Gorbachev. The geopolitical stakes are smaller, though in regional terms far from insignificant. But the emotional and cultural barriers to be overcome are even higher. No country has been so convulsed with anti-Americanism as Iran during its Islamic revolution, and none has so humiliated the US as Iran did during the 1979-81 hostage crisis.

This hostility has damaged both sides. While obstructing Iran's development, it undermines US efforts to isolate Iraq. It also threatens to embroil the US in a damaging trade dispute with Europe. An Iranian leader who appears determined to improve relations deserves encouragement, even if his words have to be checked against his deeds.

Mr Khatami has consistently avoided anti-American rhetoric, while stressing the need for western and Islamic societies to learn from each other. At last month's Islamic summit, he called for "a thoughtful dialogue (with) the great American people". This week he expressed regret over the hostage crisis. and showered the US with compliments, in a television interview.

The Clinton administration, while welcoming this, has responded by calling for direct talks between governments. But Mr Khatami may well be right in thinking that greater informal contact is needed before the two governments can face down domestic opposition to any rapprochement. His own approach is opposed by the clerical establishment, while Mr Clinton has to contend with the strong pro-Israel lobby in Congress.

One thing the US president can do, without waiting for Congressional approval, is order an intelligence review assessing the changes in Iran since Mr Khatami's election and setting realistic US goals for a future dialogue. Iran must be dissuaded from supporting terrorism, and from acquiring weapons of mass destruction. But terrorism should be distinguished from resistance to Israeli occupation in south Lebanon, and regional arms control efforts cannot ignore Israel's own nuclear weapons. Likewise, Iran should not obstruct the Arab-Israel peace process, but should not be blamed for echoing the same criticisms as Washington's Arab allies.

US-Iranian understanding will not be easy but it is an essential ingredient in any longterm recipe for regional stability. The two countries share an interest in containing Saddam Hussein. He alone has anything to gain from their remaining at odds.

An Irish deal

Anyone who has followed the tortuous bargaining over a new constitutional settlement in Northern Ireland will not be surprised by reports that Tony Blair sees a power-sharing assembly in Belfast as central to an eventual deal between the province's political parties.

Nor is a "council of the Isles", drawing its membership from parallel assemblies in Scotland and Wales as well as from London and Dublin, a new idea. Devolved government in Northern Ireland alongside a new set of relationships beyond its borders has always been pivotal to the political talks process. The new council, proposed by David Trimble's Ulster Unionist party last summer, fits into this broad scheme.

Doubtless Mr Blair will not be unhappy, though, at the inference in the reports that he has listened hard to Mr Trimble in drafting the British government's latest view of the main elements of a settlement. It was a perception among sections of the unionist/loyalist community that the government was conceding too much to Sinn Féin/IRA that provoked the recent crisis over the future of the multi-party negotiations.

But as the talks resume later today, two points should be made. The first is that the proposed assembly and council account for only two of the elements in a comprehensive agreement. Just as integral are a proposed new body to promote closer relations between Belfast and Dublin, a new framework for Anglo-Irish relations, and agreement by the Irish government to revoke its territorial claim to the province. Each of these pillars is required to support a durable settlement.

The second precondition for success is a willingness from all sides to face up to the compromises necessary for a deal. The May deadline for the conclusion of talks means that unionists and nationalists, loyalists and republicans alike can no longer hide behind the ambiguities which have so far kept them in negotiation. Cards held close to chests must eventually be placed face up on the table.

On offer to unionists is a guarantee that Northern Ireland will remain part of the UK for as long as the majority wishes. Nationalists are offered a serious share in the governance of the province and explicit recognition of the legitimacy of their aspirations.

The weekend murder of another innocent Catholic by loyalist extremists was a further grim reminder of how easily the whole process could yet be derailed by a return to full-scale violence. That in turn only reinforces the responsibility of the parties in the negotiations to recognise that peace demands political compromise.

Once more to the table

The stalemate that has characterised the talks on the future of Northern Ireland must be resolved, writes **John Murray Brown**

As Northern Ireland parties return to the negotiating table today, there is a growing realisation that the current search for a settlement of the province's bitter conflict is coming to the crunch.

The crisis of the last two weeks, culminating in the unprecedented meeting between Mo Mowlam, the Northern Ireland secretary, and loyalist paramilitaries in the top security Maze prison, has provided a salutary reminder of the violence that could consume the province if talks break down.

That seemed a very real prospect in the wake of the murder of Billy Wright, the imprisoned loyalist leader, and the reprisal killings by his supporters of two Roman Catholics.

But this weekend both main parties – the Ulster Unionists and the moderate nationalist Social Democratic and Labour party – called on the government to inject new momentum into the negotiations, which have staggered forward since the first IRA ceasefire in September 1994.

Senior British and Irish civil servants were last night working on a paper outlining the core issues at the heart of the dispute which could be presented to the parties as early as today.

Tony Blair, the British prime minister, wants to see a settlement by May, which would then need to be endorsed by referendums in both Northern Ireland and the Irish Republic.

The timetable is tight. If things were to slip, the province could find itself engulfed in another confrontational marching season, when Protestant Orangemen parade along traditional routes, often through Catholic areas. Legislation should by then be in place with an independent parades commission to adjudicate on disputes. But the potential for unrest remains.

Until now, George Mitchell, the former US senator and long-suffering chairman of the talks, has had a tough task just to keep the protagonists on board. But if talks are to move to more substantive issues, the tensions between participants, and between the parties and their supporters outside the talks, are certain to rise.

Ms Mowlam's bold initiative in persuading the Ulster Democratic party, the political arm of the banned Ulster Defence Association, to give the process a second chance has bought her valuable time. But officials believe loyalist gunmen are still looking to avenge Billy Wright's killing.

Lord Alderdice, leader of the non-sectarian Alliance party, reflected the revulsion felt by both unionists and nationalists when he criticised Ms Mowlam for talking to convicted terrorists. As Seamus Mallon, SDLP deputy leader, put it: "Are we going to have our future determined by people who have killed in the most extraordinary and vicious ways?"

The outline of a settlement is conceded by both sides. This envisages a balance between those wishing to remain part of the union with Britain, and those who aspire to Irish unity. The trade-off is between a new power-sharing assembly for unionists, and cross-border institutions to provide expression to the Irishness of the Catholic minority.

The Dublin government would also undertake to amend the territorial claim contained in its 1937 constitution to enshrine the principle that any change in the status of Northern Ireland can only be effected with the consent of the people of Northern Ireland.

When they gather today round the table in Castle Buildings, outside Belfast, the eight parties will have to try to pick up the pieces after failing to agree even a list of the key issues before Christmas. Unionists blame the Irish government for not wishing to press Sinn Fèin on the idea of an assembly, which for republicans would be tantamount to recognising the "statelet" they live in. Unionists, too, were anxious over the Christmas period not to expose themselves to sniping from their Democratic Unionist opponents who are boycotting the talks.

The proposed North-South body is the most contentious part of the package with unionists seeing in it an embryonic united Ireland. Indeed, until the unionists show an inclination to countenance such changes, the SDLP is reluctant to sign up to any suggestion of a new assembly, from which the North-South bodies will derive their authority.

But the position of David Trimble, the UUP leader, has been bolstered by the support offered by Mr Blair to his proposal for a new Council of the Isles, linked with devolved parliaments in Scotland and Wales – effectively the cover for the UUP to accept North-South links.

Tomorrow the agenda will shift to more practical issues, as Ms Mowlam will herself chair a meeting to discuss measures to build public confidence in the process.

Sinn Fèin, in seeking to play down expectations, is focusing on what it prefers to call the "equality agenda" which it says should be addressed irrespective of what happens in the talks.

As Mr Mallon wryly observes, "each confidence building measure has the potential to actually wreck the talks". But until a settlement emerges the see-saw effect of giving concessions to one side while raising the other's suspicions is unavoidable.

The other unknown is what capacity hardliners on the unionist side have to upset the process. Mr Trimble says "If the process is moving towards a positive outcome which I hope it will, I expect there will be a stampede to come and claim credit."

The UUP's longer-term concern is that even if everything is agreed, when it comes to electing members for the new assembly, the unionist community may opt for more hardline candidates to defend the union against nationalists. Another big question mark hangs over Sinn Fèin's ability to sell a deal to its most militant supporters that falls short of a united Ireland. British officials express confidence that republican opinion is being conditioned for a more modest outcome. The optimistic view is that the republicans may recoil from the agreement but not violently. Bertie Ahern, the Irish prime minister, says dangers of the recent split, arising from recent reports of IRA defections, are overstated.

One possibility is that republicans could oppose the referendum, forming an unholy alliance with the DUP and the small UK Unionist party of Bob McCartney, which could make the outcome very close. At this stage neither government dares publicly contemplate plan B – what happens if the talks fail – for fear this might undermine the current negotiations. But if the stalemate persists, London and Dublin may have little choice but to put a deal to the people over the heads of the parties to avoid the province sliding back into violence.

Left to right: bottom row, unionists David Ervine, Gary McMichael and David Trimble; Northern Ireland secretary Mo Mowlam; Irish foreign minister David Andrews; and John Hume of the nationalist SDLP. Top row: Ian Paisley, Democratic Unionist leader who refuses to take part in talks, and Sinn Féin's Martin McGuinness and Gerry Adams

Arguing for Ulster

David Trimble, the Ulster Unionist leader, has taken considerable risks to keep his party in the talks. He has met Bertie Ahern, the Irish prime minister. He has hinted that he could settle for some form of new North South links. The idea of a Council of the Isles may provide the fig leaf he needs to sell a deal. He would not turn down the chance to be Northern Ireland's new first minister.

John Hume, the SDLP leader, while not the force he once was, still commands considerable respect in the nationalist community and beyond. The expectation is that if there is a settlement, he would probably not take up a position in the new parliament, but may seek an international appointment.

Gerry Adams, the Sinn Fein president, is attempting to sell the current negotiations as a transitional arrangement – a step on the way to a united Ireland. But there has already been some evidence of republican disaffection with the process. It is assumed that if this were to threaten a full-scale split in the movement, he would abandon the current negotiations.

Mo Mowlam, the Northern Ireland secretary, has shown political courage and enjoyed not a little good luck. The decision to talk to prisoners in the Maze was typically courageous.

David Andrews, the Irish foreign minister, has had a turbulent few months in the job. An affable, gangly lawyer, he was publicly contradicted by Mr Ahern over his remark that the North South bodies should "act like a government". But his standing with Sinn Fein is good, thanks to his record of supporting miscarriage of justice cases in the UK in his earlier career.

David Ervine and Gary McMichael, respective leaders of the Progressive Unionists and Ulster Democratic parties, have outgrown their formal position simply as spokesmen for the two main loyalist paramilitary groups and now have a power base of their own.

Ian Paisley, leader of the Democratic Unionists, like Bob McCartney, the leader of the UK Unionists, is boycotting the talks, which they say are undermining Ulster's links with the UK and appeasing terrorists. Mr Paisley can still rouse a crowd, but his recent contribution to the debate has been lacklustre.

John Murray Brown

· OBSERVER ·

Silence of the bears

■ Silence has descended on the usually loquacious analysts at Western investment banks in Tokyo. Many have been told by their employers to make no public comment about which companies are in serious trouble. Some are reluctant even to talk off the record on phone lines that are being recorded.

Japanese government officials have recently started to blame the Nikkei's plunge on the spreading of "false rumours" about particular stocks, and plan new measures to prevent such "speculation". Three US banks have already been questioned and others are nervous about attracting the attention of the authorities.

"Nobody has forgotten that in the past in Japan it has been the foreigners who are blamed when there is a crisis," says one analyst – anonymously.

The government insists that the anti-speculation measures will be aimed at making the market more transparent. "If investors understand them correctly, prices will rise," pledged finance minister Hiroshi Mitsuzuka. But the ministry hasn't quite decided what the anti-speculation measures will involve – Observer trusts that, whatever they turn out to be, investors will be able to "understand them correctly".

Natty professor

■ The attempt by four academics to block the euro in the German constitutional court – due to start today – has given a fresh lease of life to a one-time monetary *wunderkind* who found that being good at economics didn't guarantee success in banking.

Wilhelm Hankel, a dapper 69-year-old Frankfurt professor, has emerged as one of Germany's most fluent opponents of the euro. Much to the discomfort of his government, he has been busy on the German television talk show circuit, delivering grim warnings of higher inflation and increased unemployment with all the authority of a former senior economics and finance ministry official.

Hankel was in charge of Bonn's policy department in the early 1970s when the D-Mark was decoupled from the Bretton Woods system of fixed exchange rates and allowed to float.

A subsequent brief spell as president of the publicly-owned Hessische Landesbank ended less happily. Miscalculations about interest rates and the Frankfurt residential property market resulted in DM3bn of loan loss provisions at the bank and caused Hankel to quit his post in 1973.

Hankel's opponents, including Chancellor Helmut Kohl, haven't been slow to mention this career blip, but his allies are unfazed. One fellow petitioner, former Bundesbank council member Wilhelm Nölling, says any slip-up at Hessische Landesbank is as nothing beside what finance minister Theo Waigel is doing to Germany's public finances.

Spice of life

■ Nelson Mandela's description of meeting the Spice Girls as "the happiest day of my life" hasn't inspired his less glamorous Australian counterpart John Howard.

Some of the shine has come off the much-hyped girl-power pop group, and Howard is toiling in the opinion polls, so the feisty fivesome's tour promoters were keen to arrange a mutually beneficial photo-opportunity.

But Howard, who's more attached to bureaucracy than bopping, refused to budge from the seaside motel near Sydney where he has holidayed for nearly 20 years.

Frankly

■ Still no word of which big *fromage* is next in line to run the European Bank for Reconstruction and Development. President Jacques de Larosière steps down at the end of the month and, having already delayed his departure by four months while his masters bickered over the replacement, apparently there's no question of him staying any longer at the London HQ.

With European governments still haggling, it looks as if there'll be an interregnum – just as there was four years ago when Jacques Attali beat his hasty retreat. On that occasion it fell to the EBRD's then-vice president Ronald Freeman to step temporarily into the beach. His replacement Charles Frank, newly arrived from GE Capital, should limber up for a spell of buck-stopping.

Esprit de corpse

■ The embalmers entrusted with the once-sacred task of preserving Lenin's body in his Moscow mausoleum are now helping to stitch together the corpses of "new Russians" killed in assassinations and fatal accidents.

Yuri Romakov, deputy head of the scientific institute which gives Lenin his regular preservative chemical baths, said lack of funds had forced diversification. The old revolutionary would be spinning in his grave - if he had one.

The Financial Times

100 years ago

Russian Spirit Monopoly
In view of the impending introduction of a State monopoly of the sale of spiritous liquors, by which about 12,000 persons will be thrown out of employment while many licensed victuallers will be ruined, the Russian authorities, fearing that the consequent large addition to the ranks of the unemployed may give rise to disturbances, have decided that all persons in the capital who may find themselves deprived of their livelihood by the projected measures shall be sent back by railway, free of cost, to their native places.

The Klondyke Boom
"It is quite evident that the Klondyke boom has collapsed." That is the opinion of the New York Mining and Engineering Journal, which ought to know something about the matter. The journal bases its view upon the failure to go to allotment of the Norse American Gold Company, not a tenth part of whose shares were applied for, the money subscribed being consequently returned. Much the same sort of thing has happened in London, and we may take it that the Klondyke boom is pretty well on its last legs here as it is in the States.

FINANCIAL TIMES
Monday January 12 1998

Support grows for bill to control genetic research

Congress backs calls for human cloning ban

By Nicholas Timmins in Washington

Richard Armey, the House majority leader in the US, yesterday backed President Bill Clinton's call for a ban on cloning human beings for at least five years.

The Republican congressman told Fox News on Sunday: "We are going to move that ban." Richard Seed, the Chicago physicist who plans to attempt the procedure, said he would move abroad, possibly to Mexico, if Congress prohibited human cloning.

In his weekly radio broadcast on Saturday, Mr Clinton said Mr Seed's plans were "profoundly troubling". He added: "I call on Congress to act now to make it illegal for anyone to clone a human being."

Last June Mr Clinton sent a bill to Congress which would outlaw human cloning for at least five years, but said that "unfortunately" Congress had failed to act. "It is now clearer than ever that legislation is exactly what is needed," he said.

White House officials pointed out that no congressman had yet been prepared to sponsor the legislation, but yesterday Mr Armey said human cloning was "a nasty business – something we should not be messing in", and that Congress would address a ban.

God had already created man perfectly in his own image, the House majority leader said. "We don't need a bunch of amateurs down here doing what they think they can do."

The chances of US legislation have risen sharply in spite of widespread scepticism among scientists over whether Mr Seed has the ability or the facilities to achieve his aim.

Yesterday he claimed infertile women had been telephoning him in tears to beg him to go ahead in spite of the furore. He admitted he did not have the funds or facilities to carry out the procedure but had "enough money to get started".

Mr Clinton's proposed legislation would not prohibit cloning human material such as DNA and human cells which could produce important medical advances.

● Thirteen countries will today sign the first binding international ban on human cloning, adds Reuters.

The 13 countries are among the 40 members of the Council of Europe, which says another seven member states are considering endorsing the ban.

The text, which is an addition to the European Convention on Human Rights and Biomedicine, places a total ban on human cloning but allows the cloning of cells for research.

The signatories are Denmark, Finland, France, Greece, Iceland, Luxembourg, Norway, Portugal, Romania, San Marino, Spain, Sweden and Turkey.

Editorial Comment, Page 15

Jospin defends police action on jobless

By Andrew Jack in Paris

Lionel Jospin, the French prime minister, yesterday defended the need for the state to exercise its authority after allowing police to remove protesters from unemployment centres around the country over the weekend.

Mr Jospin's decision to send in police triggered renewed political divisions, with Communist and Green party members of his left-wing ruling coalition attacking the action.

Bruno Megret, one of the leaders of the extreme right-wing National Front, also capitalised on the decision to call the expulsions "gross".

Speaking on television, Mr Jospin said: "Our country needs dialogue, social justice and to succeed in its economic policy against unemployment at the same time, but it also needs a word of authority."

His comments came after three weeks of occupations in employment benefit centres and other government offices by unemployed protesters calling for additional financial assistance.

The movement has triggered widespread support at a time of near-record unemployment in France, but causes difficulties for the government as it tries to curb spending.

Mr Jospin, who was criticised for under-estimating the strength of feeling towards the protesters, pledged FFr1bn ($166m) in extra support on Friday to the unemployed, but demanded that the occupations cease.

A few offices, including the Chamber of Commerce in Cherbourg, were still occupied yesterday afternoon, and in one protest, a group of the unemployed interrupted a live television broadcast on Saturday evening and spent much of the programme discussing their concerns.

The reactions came ahead of a meeting due to be held today between Martine Aubry, the employment minister, and representatives of the unemployed. The protesters are calling for measures for the young unemployed and for increases in the level of benefits provided to the jobless.

AC!, a group which has helped organise the protests, said it expected new occupations to take place from Monday, while stressing that it hoped they would be "non-violent".

An opinion poll in the Journal du Dimanche newspaper over the weekend suggested that 77 per cent of the French people did not believe the measures announced by Mr Jospin on Friday would be sufficient to resolve the conflict quickly.

Hong Kong calm urged

Continued from Page 1

were also continuing with potential investors to replace Zurich Group of Switzerland, which abruptly withdrew from a US$200m capital injection on Friday.

Peregrine declined to comment on speculation that the Bank of China or a mainland-backed group might be willing to bail it out, but a source said a "household name" was involved in discussions. The company issued a statement today reassuring investors that all stockbroking accounts were covered.

A rescue appeared to be obstructed by uncertainty over exposure at Peregrine's fixed income division, particularly in Indonesia. "Parts of the business are attractive, but to get at them you need to buy all of Peregrine, and there is a lot of toxic waste," said a source close to the company.

Tough curbs on its trading activities and the risk that clients will abandon the troubled group limits the time left for a rescue. The collapse of the Zurich deal came after the Friday close of Hong Kong's stock market, which has already fallen by 17 per cent this year. Hong Kong shares continued to fall in London trading later on Friday.

Market confidence has been undermined by a sharp rise in interest rates as Asia's crisis has intensified and concerns have mounted over the threat to the Hong Kong dollar, which has so far held steady on the strong side of its HK$7.80 link to the US dollar.

Lawyers ready to act on silver price 'manipulation'

By Kenneth Gooding in London

US lawyers are preparing a class action suit alleging that the silver market is being manipulated to drive prices higher, according to Martin Armstrong, director of Princeton Economics Institute and a commodity fund manager.

Mr Armstrong said he had been asked to act as an expert witness for the plaintiffs, but had not yet agreed to do so. However, he did believe someone – he did not know who – was attempting to manipulate the silver market.

Worries about a potential law suit, or a Commodities Futures Trading Commission investigation, caused a wave of selling of silver by US funds at the end of last week. The price fell by 5 per cent on Thursday and by another 1 per cent on Friday to close in London at $5.69 a troy ounce. In December silver touched an eight-year high of $6.19.

Silver is mainly used in photographic materials, jewellery and silverware and electronic and electrical applications.

The Hunt brothers attempted to corner the silver market in 1979-80, forcing the price up from $6 an ounce to $50 in less than a year. The attempt failed in early 1980 and prices collapsed, handing the brothers a $1bn loss.

Asked whether the CFTC was investigating silver market activity, an official said it never commented on such rumours. Jeffrey Christian, managing director of the New York-based CPM consultancy group, said his inquiries indicated a CFTC probe was unlikely.

"The opinions behind the law suit seem incredibly ill-informed," Mr Christian said. "There are no substantive grounds for these allegations."

Nevertheless, suggestions that something untoward was happening in the silver market surfaced some months ago. In November Ted Arnold, metals specialist at the Merrill Lynch group, suggested that a syndicate including US investment funds and two bullion banks were buying up silver in the hope of pushing the price up to $8 or $9 an ounce.

"The syndicate already controls a large quantity of silver which has driven New York commodity market stocks to a 12-year low," Mr Arnold said. "We think the consortium is still prepared to throw in much more money to push prices higher over time. But against that, the fundamentals on silver supply continue to turn bearish."

Mr Armstrong said some believed about $3bn had been put into the scheme so far. He said he had been asked by the law firm mounting the suit not to reveal its identity yet.

THE LEX COLUMN

Hot Java

Indonesia is on a knife-edge. To prevent a full-blown debt crisis, tough action to reform its nepotistic economy will be needed. But there are severe doubts over the willingness of President Suharto to implement painful reforms, particularly where they harm his family's interests. And even when he seems willing to do so – as with the weekend's welcome announcement that 15 big infrastructure projects will be delayed or reviewed – a credibility gap remains. Given Mr Suharto's history of backsliding, he will find it hard to convince the markets that he means business and is not just playing for time.

A stamp of approval from the International Monetary Fund would help. But those hoping the IMF can patch things up by relaxing the conditions of its original $43bn programme are engaged in wishful thinking. The markets would not wear it. Meanwhile, those arguing the IMF is barking up the wrong tree with its insistence on structural reform and macroeconomic discipline are also misguided. True, Indonesia's main problem is too much private-sector debt. But government policy is partly to blame. And, unless it sends credible signals that policy has changed, there will be no firm basis for a debt rescheduling package.

Some might think Indonesia's lack of democracy would help it press ahead with hard reforms. The reverse seems to be the case. Unlike South Korea, for example, the political system does not seem able to generate a real alternative to the present regime. Even if Mr Suharto steps down, a replacement from inside Indonesia's establishment would face similar, though perhaps diminished, credibility problems.

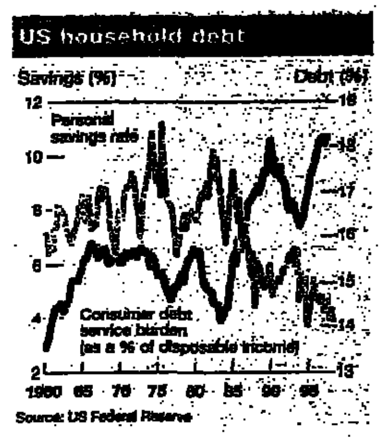
US consumers

Despite seven years of economic growth, the US household sector has not been as deep in debt for more than a generation. Personal bankruptcies are soaring and consumers are carrying debt worth 85 per cent of disposable incomes. Just servicing it eats up 18 per cent of average monthly incomes.

Yet consumers are continuing to spend. Consumption has outpaced personal income growth in four of the past five years and the savings rate, now below 4 per cent, is at a 50-year low. What can explain this apparent recklessness?

Part of the answer is circular. Economic growth, fuelled by the consumer boom, has brought falling unemployment and rising confidence, encouraging more spending. Social factors are also at work: declaring bankruptcy, for instance, no longer carries so much stigma. But the most important factor is the wealth effect created by rising asset prices, particularly stock market gains. The strength of the bull market, which has seen equities double in 2½ years, and the fact that more than 50m Americans now own shares are both new.

US household debt



Source: US Federal Reserve

This has created belief in a "free lunch", where consumers think they can save for retirement and yet maintain current spending levels. Indeed, some are probably spending not only in response to past portfolio gains, but also in anticipation of future ones. Repeated polls find investors believe equity returns will continue to match or exceed the average annual rise of 18 per cent over the past six years.

This is, however, extremely unlikely. Even under optimistic assumptions, sustainable nominal returns from the stock market will be hard pushed to exceed 10 per cent. At some point, therefore, the market will probably crash or at least stumble sideways. Once this permeates their consciousness, consumers will most likely pull in their horns. And, since consumer spending is the largest component in gross domestic product, it will not take a big jump in the savings rate to have a dramatic effect on economic growth. US consumers may not trigger a downturn, but their behaviour could well turn a slowdown into a recession.

Preussag

While it would be nice to think that the prospect of Lower Saxony nationalising Preussag's steel business is just a scary ruse – like earlier flotation plans – to flush out trade buyers, the truth is far, far worse. Gerhard Schröder, the Social Democrat contemplating an attempt to become Germany's chancellor next September, is serious, notwithstanding recent speeches in favour of a restricted role for the state. Such is the strength of union opposition to selling the business to non-German companies – for fear of necessary job cuts – that perfectly good bidders such as British Steel are having cold feet. And since Krupp and Thyssen are preoccupied with their own union-troubled merger, the only German buyer left is the state.

The argument that the investment is only temporary – even if permissible under European state aid rules – is dubious. If it is hard for a private sector company to sell now, it will be much harder for politicians to do so in an election year when the unions have proved their political clout. Mr Schröder's nervousness ahead of state elections in March is understandable, given his promise to withdraw from the chancellor race if the SPD vote falls more than two percentage points below its 1994 level. This nationalisation is not just bad economics, given the indisputable need for consolidation of Europe's steel industry, but bad politics too. Taking such industries back into the state's fold is a retrograde step that he may well come to regret.

US telecoms

There is an interesting twist to AT&T's $11bn takeover of Teleport, a local business telecoms group: the three cable television companies that control it – Comcast, Cox and TCI – will end up as Ma Bell's biggest shareholders. This seems strange. After all, most cable companies have been quietly trying to get out of telephony after failing to make much headway since deregulation. But two things have changed recently. Cable companies' cash flow has improved, giving them the resources to upgrade their systems to offer digital services. And the value of direct access to residential customers, which the cable companies have, has grown substantially. It is possible to imagine a broader alliance between AT&T and the cable companies to really crack the residential market. By taking equity, the three are keeping their options open.

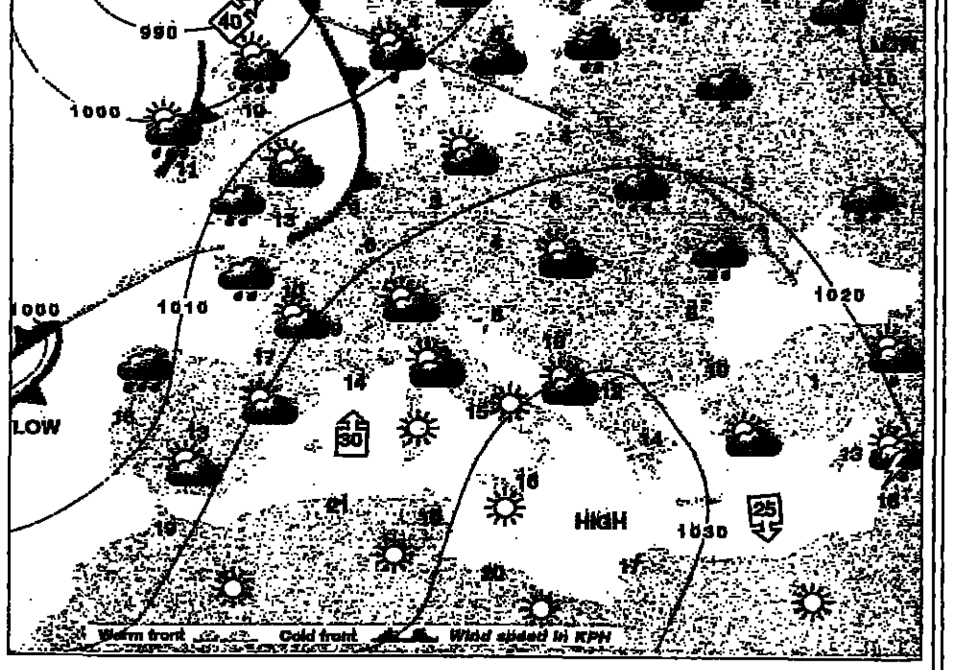
FT WEATHER GUIDE

Europe today

Northern Scandinavia will be cold with further periods of snow, but southern areas will be mild with brighter skies. Eastern Europe will be generally mild and dry, but western Russia will have some snow. France, Germany, Italy and the Alps will be dry and mild with sunny intervals, although fog will be slow to clear from some districts. Brittany and the Low Countries will have some light rain or showers later. The Iberian peninsula will be cloudy. Portugal will have heavy showers later. The rest of the Mediterranean will be fine and dry.

Five-day forecast

The western Mediterranean will become increasingly unsettled and breezy with showers or longer spells of rain, but warmer conditions will return to eastern regions.
Northern and eastern Europe will remain mild and mostly dry, although Scandinavia will see further rain or snow.
Western Europe will become wet and windy with cooler temperatures.



TODAY'S TEMPERATURES

Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

	Maximum/	Beijing	Fair 2	Cardiff	Drzzl 12	Frankfurt	Cloudy 8	Madrid	Shower 13	Rangoon	Fair 31
	Celcius/	Belfast	Showers 10	Casablanca	Thunder 22	Geneva	Fair 9	Majorca	Fair 18	Reykjavik	Sleet 3
Abu Dhabi	Fair 23	Belgrade	Fair 11	Chicago	Snow 0	Gibraltar	Rain 18	Malta	Fair 18	Rio	Thunder 28
Accra	Sun 32	Berlin	Fair 7	Cologne	Fair 9	Glasgow	Shower 10	Manchester	Cloudy 12	Rome	Fair 15
Algiers	Fair 21	Bermuda	Shower 20	Dakar	Sun 31	Hamburg	Cloudy 9	Manila	Fair 29	S. Frsco	Rain 14
Amsterdam	Cloudy 10	Bogota	Shower 20	Dallas	Sun 22	Helsinki	Rain 2	Melbourne	Thunder 30	Seoul	Shower 1
Athens	Fair 14	Bombay	Fair 34	Delhi	Fair 22	Hong Kong	Shower 22	Mexico City	Fair 23	Singapore	Thunder 33
Atlanta	Shower 17	Brussels	Fair 10	Dubai	Fair 23	Honolulu	Fair 28	Miami	Sun 26	Stockholm	Cloudy 5
B. Aires	Fair 27	Budapest	Fair 7	Dublin	Shower 12	Istanbul	Fair 9	Milan	Cloudy 10	Strasbourg	Fair 7
B.ham	Cloudy 12	C.hagen	Cloudy 6	Dubrovnik	Fair 16	Jakarta	Thunder 32	Montreal	Fair -4	Sydney	Fair 27
Bangkok	Fair 34	Cairo	Fair 17	Edinburgh	Cloudy 11	Jersey	Drzzl 13	Moscow	Snow -1	Tangier	Shower 19
Barcelona	Cloudy 16	Caracas	Fair 29	Faro	Shower 18	Johannesburg	Fair 21	Munich	Fair 5	Tel Aviv	Thunder 13
						Karachi	Fair 27	Nairobi	Thunder 25	Tokyo	Fair 8
						Kuwait	Fair 17	Naples	Fair 15	Toronto	Fair 1
						L Angeles	Rain 17	Nassau	Fair 25	Vancouver	Fair 0
						Las Palmas	Shower 25	New York	Cloudy 4	Venice	Sun 9
						Lima	Cloudy 30	Nice	Fair 15	Vienna	Fair 5
						Lisbon	Shower 16	Nicosia	Fair 13	Warsaw	Cloudy 6
						London	Drzzl 13	Oslo	Shower 5	Washington	Cloudy 8
						Lux.bourg	Fair 7	Paris	Cloudy 10	Wellington	Cloudy 17
						Lyon	Fair 14	Perth	Sun 28	Winnipeg	Snow -19
						Madeira	Shower 20	Prague	Fair 4	Zurich	Fair 5

FINANCIAL TIMES
COMPANIES & MARKETS
Monday January 12 1998 — Week 3

First Pacific to sell off $2bn of assets

HK group tries to rebuild confidence after Asia crisis

By John Ridding in Hong Kong

First Pacific, the Hong Kong-based business group and one of Asia's largest conglomerates, yesterday announced a $2bn asset-disposal programme to bolster its balance sheet and restore investor confidence. The company has seen its shares plunge 43 per cent this year in the wake of the regional economic crisis.

The group revealed currency depreciations would cause an exceptional loss for 1997 of $70m and a $300m balance sheet write-down on subsidiaries. It is to sell its 40 per cent stake in Hagemeyer, the Netherlands-based trading concern, one of its most profitable operations. The holding in Hagemeyer has a market value of about $1.6bn.

The group also confirmed rumours that it had taken a 2 per cent stake in San Miguel, the Philippines food and beverage group, and held talks with allies on a "substantial strategic investment".

That announcement is likely to fuel interest in what could be one of Asia's largest hostile bids. However, First Pacific said no agreement had been reached with its affiliates on a further share purchase.

Manuel Pangilinan, managing director, said the moves underlined a strategy of strengthening the group's financial position, focusing on Asia, and consolidating investments into fewer, larger businesses.

He said moves to build a stronger cash position were both "prudent and opportune".

While the company expressed confidence in the long-term prospects of the Asia-Pacific region, the immediate steps in the strategic review are largely defensive.

The group, which is ultimately controlled by Indonesia's Salim Group, said proceeds from asset disposals would be used partly to reduce head office debts. Before the agreed sale of its Hong Kong mobile telecoms operation, completed last week, net indebtedness at head office amounted to about $900m.

The group said it planned to repay up to $384m of short-term debts in the first half of this year and that $226m in floating-rate notes would be prepaid before the end of next year. That would leave only the convertible bonds of $350m outstanding.

Consolidated net debts, $3.2bn at the end of 1997, would fall to $300m on a pro-forma basis, after stripping out the borrowings of the Hong Kong telecoms operation Hagemeyer, and including proceeds of $2bn from disposals.

That would bring gearing down from 93 per cent to 10 per cent and interest cover from 4.1 times to 14 times.

A planned rights issue of up to $300m at Metro Pacific will be used to reduce debts at the Philippines subsidiary and to support the investment programme of its Smart Telecommunications subsidiary.

Peregrine fall-out, Page 19

The long and the short of it

Hedge funds have prospered amid the Asian financial crisis

In an attempt to lift morale, salesmen at Samsung Life Insurance in Seoul dance and chant slogans to show their refusal to listen to gloom and doom stories about the economy — Reuters

Asian stock markets and currencies went into free fall in the *last months of 1997. Hedge* funds, on the other hand, surprisingly prospered.

While the downturn has claimed some hedge fund victims, the group as a whole has *outperformed. Hedge funds* are limited partnerships, mainly designed for rich individuals, which have a lot of latitude in investing money, including the ability to borrow.

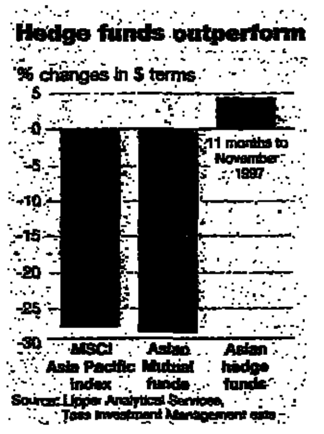
Tass, the hedge fund research group, has estimated that the 27 Asia-dedicated funds it tracks returned 4.5 per cent in the year to November and improved after that. This compares with a 27.75 per cent fall in dollar terms for the MSCI Asia Pacific index in 1997 and a similarly dire performance from US Asian equity mutual funds.

This performance differential prompted Michael Goldman at Momentum, a medium-sized hedge fund, to say of the crisis: "The real victims were absolutely not hedge funds – the real victims were the investors in unit trusts."

The ability of hedge funds to go short – sell stock they do not own in the hope the price will subsequently fall – has been a great advantage in a bear market. Such flexibility is not enjoyed by mutual funds or unit trusts.

The most startling beneficiary of last year's market movements has been Julian Robertson's Tiger fund, one that invests globally and across many asset classes like that run by George Soros. Tiger's assets, which started 1997 at about $9bn, rose almost 70 per cent in the last six months of the year to stand at about $15bn at the *year-end.*

Hedge funds outperform



Source: Lipper Analytical Services, Tass Investment Management data

Tiger had been particularly bearish on the financial sector in Asia while launching a fund that capitalised on growth in some industrial sectors.

A different strategy benefited London-based Sloane Robinson. The hedge fund manager's $700m SR Asia Fund returned 66.5 per cent in the 11 months to November and is expected to have achieved more than 80 per cent for 1997 as a whole. However, most of its gains came from long positions in China and Hong Kong in the first half.

In spite of this success, most analysts would guard against a wholesale rush into hedge funds. While some did extremely well, others failed.

Victor Niederhoffer was a high-profile casualty of the crisis after his futures fund halved because of a bullish position in Thailand. The $460m offshore hedge fund run by Orbis Investment *Advisers lost 23 per cent of its* value in the year because of its long positions in Japan and South Korea in the last quarter.

Jimmy Chan, a director of the relatively low-risk stock-picking fund, said: "It was our own mistake of being long in markets that didn't do well and short on expensive markets such as the US and UK which did."

This varied performance may be why relatively few new Asian funds are coming to the market. Investors seem to be focusing more on regions, such as developed Europe.

While there are some signs that macro funds are cautiously returning to the Asian market, managers are wary.

Few are prepared to predict the outcome of hedge fund performance in Asia in 1998. While market volatility can be a blessing to these investors, it can also be a curse. As Mr Chan said: "The only people to really benefit from volatility are the brokers."

Jane Martinson
Jonathan Ford

UK groups mull At Home link

Cable companies aim to copy US high-speed internet access service

By John Gapper in London and Nicholas Denton in San Francisco

Cable companies in the UK are having detailed talks with At Home Network, the US provider of high-speed internet access over cable networks, to *establish a similar service for* the UK's 1.8m cable customers.

Cable and Wireless Communications, NTL and Telewest, the three largest British cable companies, have discussed setting up a joint venture company – in which all four partners would hold equity – to replicate At Home's services.

Although the three UK cable companies could try to produce their own services, some executives say it would be hard to match the expertise built by At Home or Roadrunner, Time Warner's rival US service.

At Home is thought to have produced draft proposals for a UK joint venture at Christmas. These are now being considered by the UK companies. However, executives say they are likely to look at other possibilities before making a deal.

NTL said yesterday that although it had talked to At Home, it was "actively considering a range of alternatives" to the joint venture, including offering a high-speed internet service to other UK cable companies itself.

The talks are significant for *UK cable companies because* At Home's service, which carries data up to 100 times faster than ordinary telephone lines, has contributed to a strong revival in the market valuations of US cable companies.

By providing internet access *as well as new television channels,* US cable companies are seeking to differentiate themselves from satellite broadcasters as well as developing revenues from advertising and *home shopping.*

This promise lies behind much of the recovery in the shares of US cable companies, several of which have doubled from their lows last year.

Several UK executives involved in talks believe At Home is demanding too large an equity stake in the venture in return for technology and expertise. However, At Home may seek deals with individual companies if a deal is delayed.

Cable groups believe they do not have to rush because there is no immediate threat of competition for high-speed internet delivery from telecoms groups. They are also occupied by the introduction of digital television this year.

At Home uses the infrastructure of participating cable companies, linked by a "backbone" network it has built.

Lead investors in At Home, which went public in July 1997 and is valued at $2.6bn, include Tele-Communications Inc and Comcast, two of the largest US cable companies, as well as Kleiner Perkins, the venture capital firm.

At Home, CWC and Telewest *declined to comment on the* negotiations.

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TCI gives prize, Page 18

INSIDE

Tsang ready for Peregrine fall-out

With the threat of liquidation hovering over Peregrine, the stricken Hong Kong investment bank, both the government and the financial sector are bracing themselves for any crisis fall-out. However, Donald Tsang (left), Hong Kong financial secretary, dismissed the threat of systemic risk, saying there were adequate provisions for institutions exposed to the group. Page 19

MARKETS THIS WEEK

New York
Investors and traders will weigh positive US economic data against continuing concerns about the crisis in Asian markets and worries about the strength of US company earnings in the first meaningful week of the fourth-quarter corporate reporting season. Page 21

Tokyo
The stock market could be heading for another anxious week. Ryutaro Hashimoto, Japan's prime minister, is expected to make a speech today outlining the government's policy for the economy and the financial sector. Page 21

London
The focus will be on a batch of economic data, such as tomorrow's retail price index and Wednesday's unemployment and average earnings figures. On the corporate front, the big news of the week should be interim figures from Tomkins and a Christmas trading update from Kingfisher tomorrow. Page 21

CURRENCIES
Focus stays on east Asia
Visits by US and International Monetary Fund officials to Indonesia this week will keep the market's focus on east Asia, especially the Indonesian rupiah. Six months ago it traded at Rp2,400 against the US dollar. At the weekend it reached about Rp9,600. Page 21

RISK MANAGEMENT
Credit derivatives under the spotlight
Credit derivatives, financial instruments that allow investors to speculate on changes in the creditworthiness of borrowers, have started living up to their promises because the crisis in Asia has encouraged investors to review their credit protection. Page 22

GLOBAL INVESTOR
Asian crisis will just get worse
The ingredients are in place for the episodic Asian crisis to keep getting worse. The IMF's and US Treasury's interventions have been too modest and too late and there is mutual distrust between Asian governments and western financial institutions. Page 20

COMMODITIES
Uncertain week in prospect for oil
Oil traders are preparing for another uncertain week in the world's petroleum markets. Crude prices have been wallowing around 30-month lows. The depression stems from the possibility that 1998 may turn out to be a year in which world oil production outstrips demand. Page 21

INTERNATIONAL EQUITIES
Getting back on a $150bn track
This year could be as busy as 1997 for privatisations, according to Privatisation International, an industry monitor. Governments raised $161bn last year selling state assets. Some put the possible figure this year at $150bn. Page 20

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HOT BALLOONS
An international festival of hot air balloons will be held on Saturday at Chateau-d'Oex, Switzerland, from where the the Breitling Orbiter 2 circumnavigation attempt is expected to start some time during the week. The festival ends on January 25.

SPACE WALK
Anatoly Solovyov, commander of the Russian Mir space station, and David Wolf, the resident US astronaut, are due to go for a spacewalk to retrieve US equipment attached to the ship's exterior on Wednesday.

Companies in this issue

Market Statistics http://www.FT.com

Asia colours fund managers' views on emerging markets

By Philip Coggan, Markets Editor

Fund managers became significantly more negative about emerging markets in the fourth quarter as Asia's financial and economic problems hit home, according to a survey.

The proportion of fund managers who were positive towards global emerging markets dropped from 85 per cent in the third quarter to 50 per cent, while the share of negative managers increased from 20 per cent to 35 per cent.

The losses in Asian markets, with the FT S&P Pacific Basin dropping 27.3 per cent in dollar terms in the fourth quarter, were undoubtedly both a symptom and a cause of this disillusionment.

The survey, carried out by Fulcrum Research on behalf of Burson Marsteller, the public relations company, was conducted between November 15 and December 5, as Korea was calling in the International Monetary Fund but before the recent slump in the Indonesian rupiah and stock market.

The fund managers interviewed took a negative attitude towards Korea, according to the survey, because they were "not convinced of the government's or country's ability to carry out the painful but necessary IMF reforms".

They also believed that governments in Malaysia, Thailand and Indonesia had refused to acknowledge the financial crisis.

Managers thought many south-east Asian currencies could devalue further.

Latin America remained the favourite emerging market region in spite of signs of a contagion effect from Asia.

The prospects for eastern Europe were seen as mixed, with Hungary the top pick for 1998. Poland and Russia were not expected to bounce back from the sharp falls suffered in the fourth quarter.

Indonesia and IMF, Page 22

Oil companies eye Iran openings

By Robert Corzine in London

International oil companies are establishing outposts in Iran following conciliatory signals from the Islamic republic's new leadership.

British Petroleum has set up an office in Tehran, and Royal Dutch-Shell has struck a co-operation pact with the National Iranian Oil Company. The companies are hoping for a breakthrough in relations between Iran and the US.

Mohammad Khatami, Iran's president, recently called for dialogue between Iran and the US in a CNN interview and recommended the exchange of "professors, writers, scholars, artists, journalists and tourists".

Until recently, BP and Shell were reluctant to be seen being active in Iran as both have extensive interests in the US. BP, founded in 1901 to search for oil in what was then Persia and expelled from Iran a year after the 1979 revolution, has just reopened its office in Tehran.

The company, which says it has "no current plans for investing in Iran", says the re-establishment of a low-level presence in Tehran does not violate any British or US laws.

Shell, which had talked to the Iranians for some years about developing the large South Pars gas field in the Gulf, appears to have struck a possibly wide-ranging pact with the state-owned National Iranian Oil Company to explore and develop oil and gas reserves in neighbouring Turkmenistan.

Although Shell will only *confirm that the agreement* covers offshore developments in the Turkmen sector of the Caspian Sea, industry observers expect it will be extended to cover joint onshore projects.

Last week Bizhan Zangeneh, Iran's oil minister, said Tehran was keen to play a big role in developing onshore oil fields in Turkmenistan.

Although Iran is the world's third-largest oil exporter, its fields are far from the country's industrialised north. It would make sense for it to import oil from Caspian producers for its northern refineries and make a similar amount of Iranian crude available to Caspian producers at its export terminals in the Gulf.

Shell is also studying the feasibility of a proposed pipeline project that would carry gas from large fields in eastern Turkmenistan to Turkey via Iran.

Industry observers believe *that intensive lobbying in* Washington by US oil companies against the growing use of unilateral sanctions appears to be paying off.

Editorial Comment, Page 15

Generali gets go-ahead to fund AMB deal

By Paul Betts in Milan

Assicurazioni Generali, Italy's largest insurer, has the go-ahead from its shareholders to issue new equity and debt to finance its L9,700bn ($5.42bn) acquisition of an 80 per cent stake in AMB, the German insurance group. It is also buying two subsidiaries of Athèna, the French insurer.

It reported at an extraordinary shareholders' meeting at the weekend that 1997 group earnings would rise 35 per cent to about L1,000bn, from L800bn in 1996.

Gianfranco Gutty, chief executive, said total premiums rose to more than L40,000bn last year from L34,900bn in 1996. He confirmed the company's target to raise its return on equity from 10 per cent to 14 per cent by 2000.

The acquisition of AMB and the French businesses follow the recent agreement with Allianz of Germany to end the takeover battle for AGF. the French insurance group, which is now set to come under the control of Allianz.

Allianz is still awaiting French government approval to take control of AGF. Once this is granted, Generali will be in a position to launch next month an issue of new shares to raise L4,034bn to help finance its German and French acquisitions. It will raise an additional L3,166bn from new debt issues and rely on internal funds for the balance.

The deal will turn Generali into the fourth largest insurance group in Europe after Axa-UAP of France, Allianz-AGF, and Zurich-BAT.

Although the Italian insurer had hoped to gain control of AGF, Antoine Bernheim, Generali chairman, said of the compromise with Allianz: "A good transaction is better than a contest whose outcome is unknown." It would also help Generali penetrate the German market and increase its presence in France at considerably less cost than its original AGF bid of L16,000bn.

However, Mr Bernheim used the meeting to criticise the French government's attitude to Generali's hostile bid for AGF, as well as the Agnelli Ifil holding company's role in the takeover saga. Generali had originally negotiated with the French Worms conglomerate, now controlled by Ifil, the acquisition of its Athèna insurance subsidiary. The insurance company subsequently fell into the hands of AGF in alliance with Worms and Ifil.

That prompted Generali to move on AGF because the Italian insurer believed Allianz was interested in GAN, another larger French insurer. However, Allianz subsequently decided to bid for AGF because it believed that if Generali acquired AGF, the French government would not allow a second French company to fall in foreign hands, according to Mr Bernheim.

Lloyds set for estate agency sale

By Jane Martinson, Investment Correspondent

Lloyds TSB, the UK banking group, is expected to sell Black Horse Agencies, its estate agency arm, following a review of the business.

The group yesterday refused to confirm weekend press reports that it was considering a sale to a management buy-out team for £50m. However, the group is understood to be keen to withdraw from the agency business in order to increase returns.

Lloyds, which is chaired by Sir Brian Pitman, launched the internal review in an effort to cut overlap between its agencies and those of TSB.

In 1996 the Black Horse Agencies made a pre-tax profit of £4m, compared with a loss of £9.5m in 1995. The turnround came as property exchanges rose 19 per cent.

Although the estate agency business is understood to have made a small profit last year, it has low returns compared with the bank overall. Lloyds is understood to be keen to withdraw from the business in spite of the upturn in the housing market.

Following the merger the group set out to end duplications in areas such as life assurance, general insurance broking and consumer finance as well as estate agency.

Watmoughs counters 'cavalier' Quebecor

By Andrew Edgecliffe-Johnson


Sir Derek Birkin: "There is nothing fundamentally wrong with this company"

Watmoughs, the UK printer fighting a £188m hostile bid from Quebecor Printing of Canada, yesterday accused its rival of "a complete misunderstanding of the UK market and of the industry in general", as it challenged a number of Quebecor's claims.

The latest salvo in its defence was aimed at "Quebecor's cavalier generalisations and factually inaccurate and contradictory statements".

The Canadian group's own annual report contradicted its claims about consolidation in the industry and the absence of niche markets, Watmoughs argued. Watmoughs had invested £170m in plant and technology since 1992, and enjoyed higher operating profit margins and return on capital than Quebecor, said chief executive Patrick Walker.

Quebecor retaliated, saying: "Watmoughs talks about contradictions. Shareholders should place its talk about market growth alongside its recent earnings and share price performance.

The fact is that when we bid for the company the shares were at 197½p."

Watmoughs' shares stood at 279½p on Friday – well above the 257p cash offer. Amid analysts' predictions that Quebecor will have to raise its terms to about 300p, Watmoughs has until this Friday – day 39 of the bid timetable – to produce financial details to back up its rhetoric.

Sir Derek Birkin, Watmoughs' chairman, said yesterday: "The speed of the recovery shows there is fundamentally nothing wrong with this company, as you'll see on day 39. Maybe analysts will be surprised by how fast the recovery has been."

Analysts expect Watmoughs to have made about £18.3m pre-tax profit in 1997, down from £22.2m. Sir Derek said the company would try to show that the profits fall was a "temporary hiccup", adding: "Shareholders shouldn't be beguiled into thinking that's the way it's going to be for the future."

TCI gives consolation prize to Microsoft

By Nicholas Denton in San Francisco

Tele-Communications Inc, the largest US cable company, has given Microsoft a consolation prize after including a rival company's software in a new generation of television set-top boxes.

TCI said at the weekend it would license a version of Microsoft's Windows operating system to control 5m of the 6.5m to 10m set-top boxes it plans to deploy in 1999 and 2000.

These set-top boxes will allow cable companies to offer high-speed internet access to their subscribers, and carry services such as home shopping and advertising-supported interactive entertainment.

However, TCI stopped short of a closer alliance with Microsoft, which had reportedly been discussing a $1bn investment in the company to finance the purchase of set-top boxes.

TCI is also to license Java software from Sun Microsystems, the computer maker that is seeking through Java to counteract Microsoft's dominance of the industry. This means many applications, designed to provide services such as home banking to set-top box users, will be written in Java, encouraging developers to use the programming language.

By contrast, 90 per cent of personal computers are controlled by Windows, giving Microsoft an advantage in designing applications such as word processors for that environment.

By including software from both Sun Microsystems and Microsoft, which are in dispute over Microsoft's alleged attempt to hijack the Java language, TCI is playing the technology leaders against each other.

TCI has pursued this divide-and-rule strategy because of its concern – expressed publicly by John Malone, TCI chairman and chief executive – that Microsoft was seeking to dominate the cable industry as it did its own. Microsoft last year invested $1bn in Comcast, the fourth largest US cable group, and irritated Mr Malone by seeking through Comcast to take a stake in TCI.

Frank Stronach agrees to buy control of SDP

By William Hall in Zurich

Frank Stronach, the Canadian entrepreneur, has agreed to buy control of Steyr Daimler Puch, the Austrian vehicle manufacturer, from Creditanstalt, in a deal which could be worth more than Sch4bn ($312m).

Creditanstalt has agreed to sell its 66.8 per cent stake in SDP to Magna International, owned by Mr Stronach and one of the world's largest suppliers to the car industry.

The sale, subject to clearance by the Austrian cartel authority, also includes Creditanstalt's 50 per cent stake in Steyr Daimler Puch Fahrzeugtechnik (SFT), which earns most of its profits from long-term contracts to assemble Chrysler jeeps and four-wheel drive vehicles for Daimler Benz.

Steyr Daimler Puch shares have nearly doubled over the past year and the company had been planning to buy back the rest of SFT from Creditanstalt.

It sold the stake, worth an estimated Sch2.5bn, to the Austrian bank in 1988 for Sch600m when it was seeking fresh capital. No price has been mentioned for Creditanstalt's 66.8 per cent stake in SDP, but based on the current stock market capitalisation of Sch3.4bn it could be Sch2.2bn.

Mr Stronach is one of Austria's recent industrial success stories. He was born in Austria and emigrated more than 40 years ago to Canada, where he established a car parts shop. This grew into one of the world's biggest suppliers to the industry, with sales of $4.4bn a year.

Although he is now a Canadian citizen he has returned to Austria and is intent on building a new industrial empire there.

Magna's European headquarters are in Oberwaltersdorf in Lower Austria and Mr Stronach employs 2,000 in Austria. It is building a large forging press plant near Graz which will employ another 200. In addition to his Austrian components business, Mr Stronach also plans to build a Sch7bn Disney-style theme park just outside Vienna.

Creditanstalt said its decision to sell its controlling stake to Mr Stronach was influenced by the fact that he was a former Austrian who has shown a strong commitment to the country.

Magna will be a strategic partner for Steyr and will strongly promote Austria as an industrial location. It will give Magna access to international know-how and help ensure its long-term survival.

Austrians are particularly sensitive to foreign takeovers of domestic companies. Until recently large parts of Austrian industry were either nationalised or owned by the country's big banks. This has left Austria with very few international companies that can hold their own in world markets.

INTERNATIONAL NEWS DIGEST

Merita to book exceptional gain

Merita, the Finnish bank merging with Nordbanken of Sweden, said it would make an exceptional gain of FM1.24bn ($225m) on its 1997 results following a refund from its group pension fund. The bank, which last October reported increased profits of FM2.6bn, against FM1.87bn, for the first nine months of last year, said the transaction reflected a sharp increase in the pension fund surplus over the past five years.

Even after the transfer – made possible by a recent change in Finnish pension regulations – the bank predicted the pension fund would have a surplus of about FM400m. Officials said, however, that the exercise was unlikely to be repeated following completion of Merita's $10bn merger with Nordbanken. Merita's most commonly traded A shares closed down FM0.30 at FM29.90 on Friday. *Tim Burt, Stockholm*

■ SPANISH BANKING

La Caixa rules out more spending

La Caixa, the Barcelona-based savings bank which is a core shareholder of several domestic blue chip companies including Telefónica and Gas Natural, has ruled out further industrial investment this year. In 1997 La Caixa built up Spain's biggest industrial portfolio, worth Pta1,054bn ($6.9bn) at current prices, when it increased its stake in Repsol, the energy conglomerate from 5 per cent to 7 per cent and acquired 1.4 per cent of power group Endesa.

La Caixa lifted 1997 net profits by 33 per cent to Pta94.1bn and raised total lending by 15.3 per cent to Pta4,800bn. The savings bank, one of the largest in Europe, ranks behind Banco Santander and Banco Bilbao Vizcaya among Spain's financial institutions with a 7 per cent share of domestic loans. *Tom Burns, Barcelona*

■ US BANKING

BankBoston consolidates in Europe

BankBoston, one of the largest banks in the US, will shut its operations in Paris and Frankfurt to concentrate on growth in eastern Europe, Latin America and Asia. The group will consolidate its European presence in London, whose offices will take on the $250m loan portfolio now held by branches in Paris and Frankfurt.

"We keep sharpening our focus," said Henrique Meirelles, president. The bank is shifting its growth strategy toward emerging market activities and plans to expand its private equity and capital markets activities. *Victoria Griffith, Boston*

■ US CO-OPERATION

Holzmann, Hochtief call off plan

Philipp Holzmann and Hochtief, the German construction companies, have called off their planned co-operation in the US following their failure to agree on a valuation for Philipp Holzmann USA, in which Hochtief was to have taken a 49 per cent stake. Holzmann, which had a completed US project value of $1.53bn in 1966, said negotiations had not led to a valuation in line with the strategic value of its US business.

However, the two companies will go ahead with the merger of their Austrian operations and their property management business. They will also co-operate on management software systems. These efforts follow the dropping last year of plans by Deutsche Bank and Hochtief to pool their stakes in Holzmann to obtain effective control. *Andrew Fisher, Frankfurt*

■ US AEROSPACE

Boeing to build McDonnell jet

Boeing of the US is to manufacture a new 100-seat regional jet which was originally designed by McDonnell Douglas. Boeing acquired McDonnell Douglas, also of the US, last year. The twinjet aircraft, originally called the MD-95, is to be renamed the Boeing 717-200. The engines are being built by a joint venture between Rolls-Royce of the UK and BMW of Germany. The aircraft will serve regional markets, with flight distances of 300 miles or less. AirTran Airlines, formerly ValuJet, has ordered 50 of the aircraft and has taken options on a further 50. *Michael Skapinker, Aerospace Correspondent*

■ DUTCH REPROGRAPHICS

Océ expects jump in profits

Océ, the Dutch reprographics group, expects net profits for last year to climb 40 per cent to Fl 237m ($116.5m) and is on course for a further increase in 1998, according to Harry Pennings, chairman. Although progress was being aided by favourable movements in exchange rates as well as the effect of acquisitions, autonomous growth in sales for the second half of the year just ended doubled to 8 per cent compared with the first six months.

Revenues for 1997 were up 30 per cent to Fl 5.4bn. Just over half the rise was generated by purchases, notably of the printer division of Germany's Siemens Nixdorf, included from last April. Océ would derive "maximum benefit" from its technology base as the industry shifted from analogue to digital standards, Mr Pennings said. Net earnings per share for last year were Fl 11.45, compared with Fl 9.06. *Gordon Cramb, Amsterdam*

■ SWISS BANKING

UBS and Ebner group declare truce

Union Bank of Switzerland and its dissident shareholder, Martin Ebner's BK Vision investment company, have reached a truce in a long-running battle over the bank's share structure. BK Vision and Peter Hafter have agreed to suspend a three-year legal challenge that has succeeded in freezing UBS's plan to combine its registered and bearer shares into a single class. Their argument has been made academic by UBS's agreement to merge with Swiss Bank Corporation to form United Bank of Switzerland, which will have a single class of shares.

The merger, and consequent changes in management, vindicated Mr Ebner's efforts to get UBS to increase value for shareholders. BK Vision also withdrew a legal action against UBS directors for alleged breach of their fiduciary duties. Both sides said they intended the "settlement to put an end to [our] differences once and for all". *Clay Harris, Banking Correspondent*

Richards attacks rebel candidate

By Robert Wright

Richards, the textiles group, has accused a candidate proposed for election to its board by dissident shareholders of having a misleading CV.

It is the company's second attempt to discredit David Staveley, who has been proposed by some shareholders as chief executive of the group in a motion to be considered at a extraordinary meeting on January 16. In a previous letter, the company cast doubt on figures supplied in Mr Staveley's CV for the performance of Nutmeg (Europe), a sportswear manufacturer of which he was chief executive.

The present letter compared the published results of Coats Viyella's Australian subsidiary, where Mr Staveley was managing director, with published figures for one of Coats Viyella's Australian companies.

However, the dissident shareholders, advised by Rutherford Manson Dowds, the accountants, insisted in a previous letter the figures for Nutmeg did not cover the parts of the company for which Mr Staveley had responsibility.

They are likely to raise the same objections to the figures for the Australian company. Mr Staveley's backers may take legal action against the present directors.

M&G and Invesco, the fund managers, which own 28.84 per cent of Richards, have called the EGM to remove the chief executive, Ray Dinsdale; Brian Gilbert, chairman; and Fred Dalgarno, a director. The dissidents propose Ian Lakin, a business consultant, as chairman, Mr Staveley as chief executive and Graham Sharp, a corporate financier, as a non-executive director.

Richards has made operating losses every year since 1992.

COMPANIES AND FINANCE

KLM, Malaysia Airlines plan link

By Gordon Cramb in Amsterdam

KLM and Malaysia Airlines plan an operating tie-up, adding a substantial further strand to the network of international alliances being built by the Dutch carrier.

The two are to "conduct an intensive study of opportunities for commercial co-operation", under which flights between Amsterdam and Kuala Lumpur will first be linked. Destinations elsewhere in Europe and in Australia may also be included.

An agreement that is scheduled to be concluded this spring is expected to open the way to the co-ordination of marketing and ground handling. The agreement could be widened to include the airlines' existing partners.

KLM and Italy's Alitalia last month reached accord on a strategic partnership along the lines of KLM's recently renewed deal with Northwest Airlines of the US.

Leo van Wijk, chief executive of the Dutch airline, said at the time that a similar alliance in Asia was his main priority for this year.

However, the memorandum of understanding announced on Friday with Malaysia Airlines does not mark the achievement of that goal.

It is understood that KLM would view its presence in the Asia-Pacific region as complete only once it had ties with a number of operators including a binding deal with one larger carrier.

Hong Kong's Cathay Pacific has become the most frequently mentioned, following a tie-up between Singapore Airlines (SIA) and Lufthansa of Germany.

Economic upheavals in the Asia-Pacific region, while likely to inhibit the volume of business travel, may generate a surge in tourist demand as a slide in local currencies makes many holiday destinations more attractive.

Cathay has yet to form a firm bond with a European carrier, and has among the most envied of regional networks - especially within China, which has remained largely aloof from the economic turmoil of the past few months. David Gledhill, Cathay's former chairman, is a non-executive director of KLM.

Malaysia Airlines, which operates a 100-strong fleet compared with KLM's 120, has had a cargo link with the Dutch carrier for the past 18 months on the Amsterdam-Kuala Lumpur route. This is to be extended to passenger services, with flight frequencies increased.

The new Klia airport south of the Malaysian capital, due to open within months, was an attraction for the Dutch group. It will provide additional capacity in a way similar to the extension of Milan's Malpensa hub, the development of which was significant to the success of its deal with Alitalia.

HK braced for Peregrine fall-out

The territory's ability to manage potential systemic risk is being put to the test

With the threat of liquidation hovering over Peregrine, both the government and the financial sector are bracing themselves for the potential fall-out from the crisis at Hong Kong's stricken investment bank.

Government and company officials said yesterday talks were still under way with potential buyers, but even company sources admitted winding-up procedures could start as early as today.

Donald Tsang, financial secretary, dismissed the threat of systemic risk, saying there were adequate provisions for institutions exposed to the group and that all securities accounts were covered.

The more optimistic comments reflect the stakes involved. A collapse would not only tarnish the territory's reputation as a regional financial centre – Peregrine's meteoric growth was a proxy for the emergence of that role – but also test its ability to manage potential systemic risk.

Another failing set to be highlighted is the absence of a body to manage the winding down of an investment bank with some US$400m in outstanding debts.

"We don't have, as they had in the Barings crisis, a Bank of England to orchestrate this, yet it will have cross-border ramifications," said a banking chief. "It would be a very big job, and a very demanding one."

John Lees, a director with Ferrier, Hodgeson and Marfan, which has previously been called upon to manage investigations and liquidations, said that in the Hong Kong environment it would be "a fairly normal step to approach Hongkong Bank and see what they can do.

They have got HSBC Investment Bank, which has certain skills which could help in the sale of viable parts if that is the way it goes". The bank would not comment at the weekend.

Peregrine's integral role in corporate Hong Kong means a collapse would have ramifications across the board. As a leading sponsor of IPOs, it took stakes in the companies it brought to market and today has small holdings in a raft of red chips and other companies.

"There's almost a domino effect with these things," said Mr Lees. "The biggest asset of a company like Peregrine is its goodwill, which relates to confidence. There are a lot of other companies that rely on Peregrine. Banks lend to Peregrine. Other corporates sell to them. Still others rely on them for listings and all sorts of other services. There's quite a ripple effect. Financial services these days are very much integrated and inter-related."

Among those with a vested interest in Peregrine's fate are fund management and brokerage clients, mainly institutional. There are also its bankers, and the (mostly US) banks which acted as counterparty to currency swaps on Asian debt deals, such as the one which proved its undoing.

Peregrine was brought low by Steady Safe, an Indonesian taxi operator to which it lent about US$200m, or one-fifth of its capital base. There may be other exposures to companies in a similar situation: fast-growing prospects derailed by the regional currency melt-down.

Once the exposure came to light, Zurich Group, which two months earlier had agreed to pay US$200m for a 24 per cent stake in Peregrine, sought to renegotiate terms. The two sides failed to reach an agreement, Zurich walked away, and regulators put trading restrictions on Peregrine operations.

The weekend has been spent desperately trying to salvage the company. "It is quite similar to Barings in that over the weekend they tried to save the bank but had the problem with the loss on Nikkei futures so there was an open-ended liability," said Gary Coull, chairman of Credit Lyonnais Securities (Asia).

"This is perhaps more difficult, because there is a longer time-frame on the exposures and a lot of paper that is hard to value."

So Peregrine is racing against the clock to find a white knight. Clients have already quit. As one banking chief noted: "You aren't able to talk with clients because you're spending all your time putting fingers in the dyke, and there are more holes than you have fingers."

Among those being courted is "a household name", according to a company source. But few expect a wholesale buyer to emerge in the current climate, when other Asian operations – including BZW Asia and NatWest Securities – have failed to find one.

But carving up Peregrine opens new risks for its directors. If any operating subsidiaries are found to be insolvent, they could incur personal liabilities unless there was some legal protection, such as a receiver or provisional liquidator.

With several attractive operations including the core stockbroking business and possibly its venture capital activities, cherry-pickers are expected. These could include local players, such as Core Pacific of Taiwan, which last month bought Yamaichi's Hong Kong operations, or China Everbright, the acquisitive arm of China's state council, which has expressed interest in expanding its investment banking capabilities.

Despite the reported presence in Hong Kong of Sandy Weill, president of Travelers Group, international houses are likely to be wary of being white knights. Apart from uncertainty over Peregrine's accounts, its market share is eroding every day.

"What would you be buying? A few screens and cultural incompatibility," said one US banker. "In the environment one is seeing, even if something is cheap, is this a market to be increasing costs in terms of headcount?"

Louise Lucas and John Ridding

The bigger they are....

Peregrine grew rapidly in its 10-year life to become one of Asia's biggest independent investment houses. At its core was a strong equity business which flourished on the China and Hong Kong corporate connections of its founders Philip Tose and Francis Leung and their backers, who included some of the territory's most powerful businessmen.

With the downturn in equity business, and ever-thinner margins on agency broking, Tose steered the company into fixed income. He gave the task of heading up the team to Andre Lee, a then 32 year old whom he poached from Lehmans. The fledgeling fixed income team ballooned out to some 200 just before the job cuts announced last November, after doubling in size every year since its April 1994 inauguration. In 1996 the fixed income arm raised around US$22bn for Asian corporates and graced the top of a number of independent league tables. But the group has retained and bolted on other activities. Its stable now is made up of equities, fixed income, fund management, direct investment, and property.

The 10 main operating companies are:

- Peregrine Brokerage
- Peregrine Futures (Hong Kong)
- Peregrine Asset Management (Hong Kong)
- Peregrine Batavia Investment Advisers
- Peregrine Capital (China)
- Peregrine Capital
- Peregrine Direct Investment Fund Advisers
- Peregrine Fixed Income Advisers
- Causeway
- PYK Securities (Hong Kong)

Selected subsidiary and associate companies:

The Kwong Sang Hong (investment holding)	51.8%
Asian Infrastructure Fund Advisers	31.5%
AIF Management	31.5%
AIF Telecommunications Fund Management	25.0%

Daewoo wins better terms on Ssangyong deal

By John Burton in Seoul

Daewoo, South Korea's fourth largest conglomerate, has completed its takeover of debt-ridden Ssangyong Motor on more generous terms than announced last month.

Under a formal agreement signed at the weekend, Daewoo, which owns Korea's second largest carmaker, will assume half of Ssangyong's debt of Won3,400bn ($1.88bn) instead of Won2,000bn under a tentative deal unveiled a month ago. Ssangyong will be responsible for the rest of the debt.

Daewoo's purchase price for a 51.98 per cent stake in Ssangyong was also cut from Won150bn to Won64.2bn.

Ssangyong was forced to sell its car division, the nation's fourth biggest vehicle manufacturer, because mounting losses and heavy debts threatened the financial stability of the parent group, which is Korea's sixth largest conglomerate.

However, a recent rise in interest rates will force Daewoo to pay more to service the Ssangyong debt than initially proposed, although the rates offered by Ssangyong's creditors are still half the current corporate lending rate of 25 per cent.

Daewoo will have a grace period of 10 years before repaying the principal on the Ssangyong debt. It will also receive Won150bn from Ssangyong's creditor banks, led by Cho Hung Bank, in operating funds.

Interest rates on the debt to be repaid by Ssangyong will be one percentage point higher than that set for Daewoo, with payments on the principal due in five years.

Ssangyong will receive Won300bn in loans from creditor banks to support its debt payments.

Meanwhile, five Korean banks agreed to extend Won220bn in emergency loans to the Dong-ah construction group, one of the nation's leading builders.

Dong-ah has been suffering liquidity problems because of late payments on its construction projects in south-east Asia and a sharp fall in domestic construction orders.

SeoulBank, Dong-ah's leading creditor, will provide Won101.5bn, with the rest of the funds to be supplied by Commercial Bank of Korea, Korea Exchange Bank, Shinhan Bank and Kyongnam Bank.

Stagecoach may bid in Stockholm rail sell-off

By Charis Gresser

Stagecoach, the UK bus and rail group, is expected to enter the bidding fray to operate the bulk of Stockholm's commuter and light rail services.

Friday was the deadline for the first stage in the bidding process. Companies that have registered their interest will now be assessed for their eligibility and sent financial information on the business. So far no memorandum of sale has been sent out.

Stagecoach already owns Swebus, the largest bus operator in the region.

A number of other companies are likely to be interested in the Stockholm services. Linjebuss, Sweden's second largest bus company, and the subject of an agreed takeover by the French transport group CGEA, would be a natural bidder. It already runs one commuter train in Stockholm.

Analysts say other UK groups, such as National Express and FirstGroup, could also be interested.

Interested parties will be bidding for a five-year concession to run the services, which carry 60m passengers a year, and have annual turnover of SKr2bn ($250m).

Media spotlight turns on head of Dow Jones

By William Lewis in New York

A member of the family which controls Dow Jones, the US business information group, yesterday questioned whether Peter Kann should continue as chief executive.

Asked in a pre-recorded television interview shown on CBS whether Mr Kann was the right person to be running Dow Jones, Ms Elizabeth Goth, who has been spearheading efforts by fourth generation members of the Bancroft family to improve Dow Jones's share price performance, said: "I don't know, you know, I really don't know."

However, Ms Goth, who is thought to have the largest Dow Jones stake of any member of her generation, said Mr Kann is "definitely" the right person to be running the Wall Street Journal, the US business newspaper owned by Dow Jones.

Dow Jones has suffered poor share price performance recently and in November cut investment plans for its troubled financial markets unit in a move widely seen as a prelude to its eventual sale.

Ms Goth's decision to publicly criticise Dow Jones and question the position of Mr Kann, is likely to be seen as an escalation of her efforts to shake up the company. Until now she has largely kept private her criticisms and demands.

"We were the best media company in the world," Ms Goth said in the television interview. "Things changed rather drastically."

"The people of my generation own the company and it is up to us to behave as if we do ... rather than turning a blind eye to it and letting it continue to go the way of stagnation and poor performance, and, you know, shrinking margins," she said.

Asked whether the Bancroft family had embraced her when she began asking questions, Ms Goth replied "no" and said she had stepped into a "very alien" culture. However, she said she would not drop her campaign. "The reward of patience is patience, right?" She added: "I'm not going to stop asking questions. I'm not going away."

Ms Goth's stake in Dow Jones is valued at about $50m and she is said to be beneficiary of several hundred million dollars worth of shares held in trusts.

ML Laboratories under fire

By Andrew Edgecliffe-Johnson

ML Laboratories, the biotechnology group headed by Kevin Leech, is not abiding by the Cadbury and Greenbury codes of corporate governance, according to Manifest, the corporate voting agency.

The company has no audit committee, and has not established a remuneration committee, despite saying last year that steps were being taken to do so, the Manifest report says.

The Greenbury committee recommended all boards to establish remuneration committees consisting exclusively of independent non-executive directors but ML Laboratories' annual report points out that the group currently has just one such director, Donald Davies.

The annual report states: "Due to the size of the group, the directors consider that the absence of additional non-executive directors at this time is not detrimental to the stewardship of the company and that in these circumstances the board's remuneration and audit matters continue to be effective in the absence of a remuneration committee and an audit committee."

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / Richard Waters

A crisis likely to run and run

Watching events unfold in Asia last week, it was hard not to side with the bulls of the Treasury bond market (although the stampede at the shorter end of the yield curve strains credulity: more on that later). The full faith and credit of the US Treasury is now the acknowledged safe port in an international financial storm, and events on the other side of the world certainly qualify.

More intriguing, though, is the real (relative) value that is starting to creep back into securities markets: much more of this, and there could be some real bargains.

The main point about the episodic Asian crisis right now is that it is likely to run and run. All the ingredients are in place for things to keep getting worse. There is the apparent ineffectuality of the IMF and the US Treasury, whose interventions have been too modest and too late. There is a debilitating mutual distrust between Asian governments and Western financial institutions. Not to put too fine a point on it, some in the West feel they were lied to about South Korea's financial position last autumn.

That, and a fear in Asia that the vulture investors in the West are waiting to swoop, does not create a healthy atmosphere for the massive and complex regional debt renegotiation that is about to begin.

There is also the coming showdown on Capitol Hill, which has yet to have its say on the part official aid from the US has played. And, above all, there is the risk that the two biggest shoes have yet to drop: a Chinese devaluation and a new financial implosion in Japan, both of which must be distinct possibilities. All this will hang over the markets for months to come. In those circumstances, who would not buy US Treasuries?

The plunge in short-term yields, though, raises a different question.

The bond market event of last week was not the further declines in long-term interest rates but the 40 basis-point fall in the two-year Treasury note. This is now well below the Federal Reserve's target for short-term interest rates and is screaming for a rate cut.

The apparent justification for this has been Alan Greenspan's dalliance with deflation in a speech a week ago. But that could end up looking as mis-timed as the Fed chairman's notorious flirtation, in a speech last summer, with the "new paradigm" of endless, low-inflationary economic growth – a stance that he sought to retract later in the year.

Short-term rates may indeed be two full percentage points higher than they were in late 1993, the last time long-term yields fell below 6 per cent. But the Fed would surely not risk a repeat of 1994, when a rush to raise US rates sent shock waves through bond markets around the world. Also, there is the not inconsequential detail – as evidenced by last Friday's employment report – that the US economy was still going like a train through to the end of December.

By rights, plunging bond yields should trigger a hunt for spread in the fixed income markets. But, with fear in the air, there is little sign that that is happening. "Models of relative value are pretty useless right now," said Nanette Abuhoff, US fixed income strategist at JP Morgan. Yield spreads on everything from corporate to sovereign credits may have widened, but more volatility is on the cards. The return to normality that followed the quick and clean resolution to the Mexican peso crisis three years ago (see chart) looks further away than ever.

There is also a good chance that more value will creep into the US stock market – or, to be more blunt about it, that prices are going to fall.

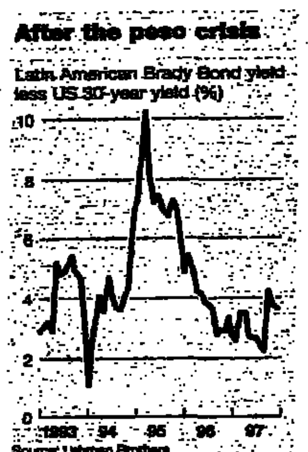
Last week's slide in US share prices may not have been as dramatic as the one-day event that caught the headlines at the end of October, but it had some more worrying aspects to it. Few investors seemed to be buying on the dips – the strategy that has stood the market in good stead for many years. That allowed the main indices to slip 5 per cent over a four-day period.

At least the coming earnings season should not make things worse. Isolated examples of falling sales in Asia and growing pricing pressure in the US aside, the final months of 1997 were still a good period for corporate America. And while earnings growth is slowing, profits in 1998 should still comfortably beat last year.

Also, with long-term yields heading towards 5.5 per cent and the Dow Jones Industrial Average close to 7,500 again, relative value is beginning to return to the market.

But until Asia is clearly on the road to recovery, buying US stocks is going to take a strong stomach.

After the peso crisis



Total return in local currency to 08/01/98

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.11	0.01	0.06	0.07	0.12	0.14
Month	0.50	0.06	0.31	0.29	0.52	0.63
12 months	5.69	0.58	3.25	3.38	8.68	7.06
Bonds 3-5 year						
Week	1.32	0.19	0.71	0.58	0.47	0.88
Month	2.30	0.17	1.52	1.44	1.69	1.97
12 months	9.77	3.70	5.40	4.74	12.84	10.38
Bonds 7-10 year						
Week	1.84	0.42	1.85	1.35	1.57	1.60
Month	3.45	0.74	2.37	1.95	3.55	3.12
12 months	13.17	9.03	12.94	10.69	24.85	16.98
Equities						
Week	–1.5	–1.1	2.4	–1.5	5.6	2.0
Month	–2.5	–4.0	2.7	–0.9	13.2	1.4
12 months	30.2	–15.2	45.2	29.2	73.9	29.4

Source: Cash & Bonds – Lehman Brothers. Equities-© FT/Extel Index Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co., and Standard & Poor's.

COMPANY RESULTS DUE

Earnings fall expected for Eastman Kodak

Eastman Kodak is expected to report on Thursday fourth-quarter earnings per share of 75 cents, down from $1.19 a year earlier.

Analysts said the fall was the result of the strong dollar, increased pressures from Fuji Photo Film, its Japanese competitor, and unprofitable investments in the digital sector.

They said Kodak had been 1997's worst performing stock in the Dow Jones Industrial Average, losing 20.5 points over the year.

"The company remains under tremendous competitive pressures from Fuji. Fuji has a definitive advantage with the lower yen and this has allowed them to cut costs," said Gary Schneider, analyst at Bear Stearns.

In addition, the World Trade Organisation issued an unfavourable preliminary ruling for Kodak, which sought to gain equal footing with Fuji in the Japanese market as Fuji enjoys in the US, he said.

Michael Ellman, analyst at Schroder Wertheim, said he remained positive about the company's prospects. "We're hopeful that next year will be a better year for Kodak." It had embarked on a significant cost reduction programme, and this, together with price adjustments, should address the issue of its market share, he said.

■ Intel is expected to report fourth-quarter earnings per share of 90 cents tomorrow, down from $1.07 a year ago and 88 cents in the third quarter. Analysts said the figures were broadly in line with company projections.

They said the latest projections had done little to alter market expectations that pricing and personal computer market trends would slow earnings growth in early 1998. They are forecasting Intel's earnings per share for the year at $2.33, up from $1.9.

Estimates for the company's 1998 results have been cut in the past two months, despite strong PC demand towards the end of last year, mainly because of expectations that the company will face strong price pressures in coming months.

Analysts said that while overall demand in the fourth quarter for PCs was strong and helped Intel achieve forecasts of slightly higher quarter-on-quarter gross margins, aggressive price cutting and demand for lower-margin PCs was likely to cause a year-on-year earnings decline and further weakness in the medium term.

Morgan Stanley Dean Witter analysts said more aggressive price cuts on Intel's Pentium II microprocessors would cause lower-than-expected revenue growth and gross margins in the first half of 1998.

■ Tomkins, the industrial conglomerate, is expected to report interim pre-tax profits of £208m ($339m) today, compared with £169m, giving earnings per share of 9.8p. BZW, the broker, is looking for a 3.45p dividend.

However, investors will be equally interested in news on Tomkins' disposal programme and its share buyback plans. Last year the company began a £100m buyback but analysts hope to see this increased to £300m. They are also looking for a statement on strategy.

The manufacturer is widely thought to be planning to focus on three core areas – food, car parts and building and industrial businesses. This would mean disposing of the distribution arm and the professional, garden and leisure products division.

■ Fyffes, the Dublin-based fresh produce group, is expected to report today, a slight fall in annual pre-tax profits to I£46.6m ($64.3m) before an exceptional profit of more than I£3m on the sale of its 18.5 per cent stake in United Beverages, an Irish drinks group.

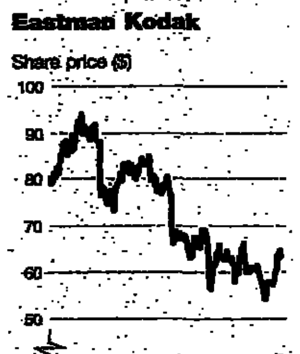
In April the group warned that price falls and unfavourable currency trends would depress interim profits. It has recovered a little in the second half, helped by price increases in bananas in continental Europe, where currencies have been weak against the US dollar, the principal currency for banana purchases.

In the UK bananas are selling at about 49p a pound, the same level as three years ago, after falling to 19p a pound in some supermarkets.

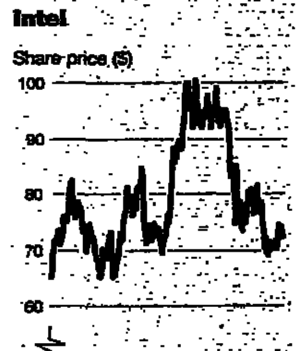
■ The market fears profit downgrades when Dixons reports interim profits on Wednesday, which are forecast at about £80m ($130m). Although Dixons was one of the main beneficiaries of the building society windfalls over the summer, the second half might be proving more difficult with marked deflation in some of its core product ranges such as television and audio.

Comparable sales increases are expected to have slowed from about 10 per cent in the first half to about 7 per cent.

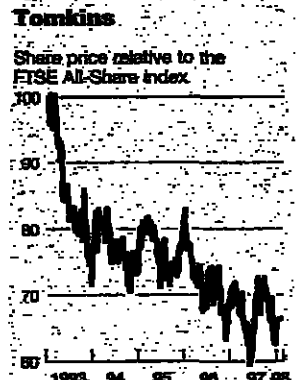
Eastman Kodak



Intel



Tomkins



INTERNATIONAL EQUITIES By Vincent Boland

Getting back on a $150bn track

After setting the pace in 1997, Spain and Italy are about to get Europe's privatisation programme back on track after the holiday lull.

The Spanish government is poised this week to approve the sale of the fourth and final tranche of shares in Argentaria, the banking group. The 29.2 per cent stake could raise about $2.2bn (£1.34bn) for the government. Applications for shares are expected to open on January 26, with completion in mid-February.

The Italian government appears to have overcome the obstacles to the privatisation of Autostrade, the motorway operator scheduled to have been sold last autumn and now expected to be an early entrant into the market this year.

Bankers say that this year could be as busy as 1997 on the privatisation front. According to Privatisation International, which monitors the industry, governments raised $161bn last year selling state assets to strategic investors and the public in share offerings. The figure was nearly double that raised in 1996, and some estimates put the possible figure this year at $150bn.

But there is one caveat when considering 1998 – whether, because of unforeseen events on financial markets sparked by Asia's financial turmoil, mandates currently being offered by issuers will translate into deals. Bankers say it is impossible to judge how Asia will affect markets and plans by governments and corporates to sell shares in international offerings.

"I see lots of quality mandates, considerably more than this time last year, so there is no slowing down in what issuers want to do," said the head of equity capital markets at a London bank. "But I suspect 1998 will be a difficult year in which to execute deals."

Despite the doubts, issuers continue to call on investment banks to prepare offerings. Nine banking groups are in competition to handle the flotation later this year of Telekomunikacje Polska (TPSA), a coveted mandate that could lead to a lot more business for the winner in central Europe's biggest emerging market.

Bankers are also preparing to compete for lead roles in the privatisations of Air France and TAP Air Portugal. Other big deals this year, including the flotation of Swiss Telecom, have already been awarded.

But some observers sound a note of caution. Many of the big flotations are scheduled for the second half of 1998, while signals from Asia suggest markets will get worse.

So should issuers rush to sell now?

"Issuers will be better off selling early," one banker advised. "If you bring a deal in October and markets are volatile, fund managers will be less willing to commit than in February or March."

One striking figure from 1997 is that no less than $110bn of the total privatisation proceeds were raised in the second half of the year. Two in particular – China Telecom (Hong Kong) and Matav – were completed successfully in the year's worst market conditions, when the Hong Kong dollar and emerging markets were suffering heavy falls.

Others, such as Telecom Italia, Endesa, Aceralia and Aldeasa, have either underperformed their respective markets or are trading below the offer price.

Despite that, there are few reasons to doubt that European retail investors will not support further sell-offs. The 1998 calendar includes its share of telecoms offerings, and few people have lost money on telecoms privatisation so far.

LEGAL NOTICES

ANC GRAVESEND LIMITED
REGISTERED NUMBER: 2662576
Nature of business: Courier Company
Trade classification: 32
Date of appointment of Joint Administrative Receivers: 10 December 1997
Name of appointor: Barclays Bank plc
D R SMITH and M J HORE
Joint Administrative Receivers
(office holder nos 8373 and 1630) of
Robson Rhodes, 186 City Road, London EC1V 2NU

MARKETS: This Week

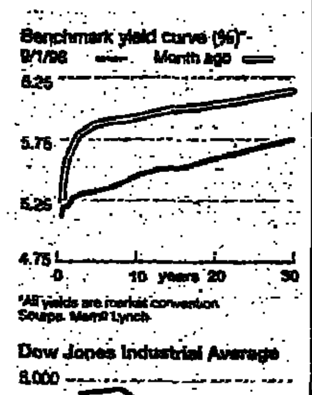
NEW YORK By William Lewis

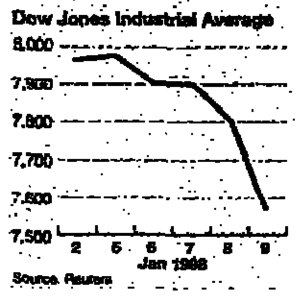
This week will see New York investors and traders weigh positive US economic data against continuing concerns about the crisis in Asian markets and worries about the strength of US company earnings in the first meaningful week of the fourth-quarter corporate reporting season.

Tuesday sees the release of December's consumer price index, with economists expecting a 0.1 per cent increase, the same as in November. Year-on-year the CPI is expected to be up 1.7 per cent, the smallest gain since 1986, when a 19.7 per cent cut in petroleum prices held down consumer costs.

December retail sales, due on Wednesday, are thought by economists to have increased by 0.7 per cent, led by a rise in motor vehicle sales. Vehicles sold at an annualised rate of 16m last month, the highest sales rate since January 1990.

Economists are also expecting December's industrial production report, due on Friday, to be positive, confirming the strength in the US manufacturing sector. Economists expect industrial production to have grown by some 0.4 per cent in December, making it the sixth consecutive month that it will have been at or above 0.4 per cent.





Nevertheless, traders believe stock and bond investors are this week likely to focus more on the continuing crisis in Asia.

On Friday the Dow Jones Industrial Average closed 2.9 per cent lower at 7,580.42, its worst one-day fall since October. Traders expect continued enthusiasm for US Treasuries.

Friday saw long-term rates fall to near 30-year lows, with the yield on the 30-year bond dropping to 5.73 per cent.

LONDON By Philip Coggan

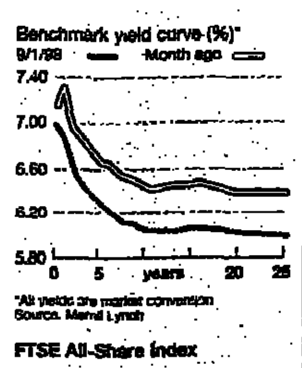
To the extent that the UK market can think about anything other than Asia (especially after Peregrine's difficulties were revealed on Friday), the focus will be on a batch of domestic economic data this week.

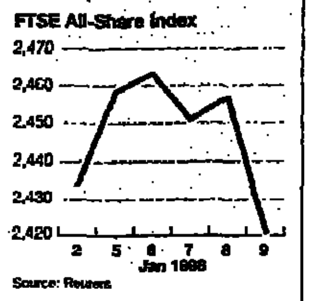
The Bank of England's monetary policy committee (MPC) decided to leave interest rates on hold last week, but there remains a debate in the market over whether further rises will be imposed.

The debate could even be decided by numbers such as today's industrial production, manufacturing output and producer price data, Tuesday's retail price index, or Wednesday's unemployment and average earnings figures. Analysts are still expecting underlying inflation to be 2.7 per cent,/above the government's target level.

Events in Asia seem to have reduced interest rate expectations around the globe and given a boost to bonds. The long-term gilt yield dipped below 6 per cent last week and the inverted yield curve implies that the markets do not believe the current 7.25 per cent level of base rates can last for long.

Wednesday's release of the minutes of December's MPC meeting may give the market a few clues.





On the corporate front, the big news of the week should be interim figures from Tomkins and a Christmas trading update from Kingfisher on Tuesday. But the market has been regularly supported by the flood of cash released by share buy-backs and takeovers in the corporate sector.

Further bad news from east Asia or Wall Street will once again be the biggest threat to the market's progress.

FRANKFURT By Andrew Fisher

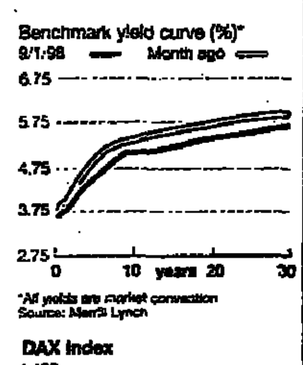
Attention will be focused on Asia again this week after concern over Indonesia's financial deterioration damped the returning confidence in European markets.

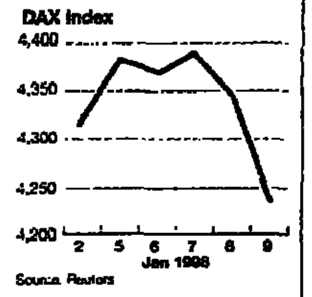
Germany's DAX blue-chip index faltered on Friday to lose 55.89 points for a close of 4,237.75; this left it 3 per cent down on the week.

Bank shares softened, reflecting their lending exposure to Asian countries. In the view of Baden-Württembergische Bank, further falls in equity prices are possible, although the strong dollar and low interest rates should also have a stabilising influence.

Once the uncertainty is over, the market will again look more closely at German companies' profit outlooks. Landesbank Rheinland-Pfalz said the question would be whether the forecasts of 10 to 15 per cent annual earnings growth still look achievable. Much will depend on how the dollar develops, since its strength against the D-Mark provided the impetus to last year's surge in share prices through the positive impact on exports.

While shares have been hesitant, the bond market has been robust. The 10-year bond yield is barely above 5 per cent, while the Bund





future has exceeded 106 per cent to reach a new record. Dealers expect further advances as uncertainty over Asia continues.

Describing 5 per cent as "a fair 10-year Bund yield", Adolf Rosenstock of IBJ Research said the influence of the Asian crisis and slower European economic growth would keep inflation subdued. Thus official short-term interest rates should stay low and bond yields fall markedly below 5 per cent.

TOKYO By Gillian Tett

Japan's stock market could be heading for another nervous week after the Nikkei index closed on Friday at 14,995.10 – close to its two-year low and below the key 15,000 level.

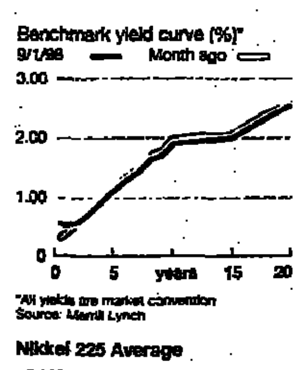
In Japan, one immediate focus will be today's big policy speech by Ryutaro Hashimoto, prime minister. He is expected to outline the government's policy for the country's troubled economy and its financial sector in particular.

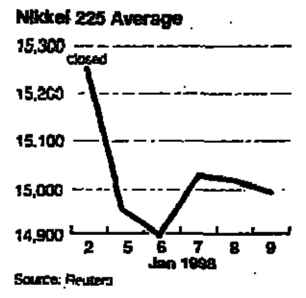
This week, Japan's parliament will also debate bills that would allow the government to inject up to Y30,000bn ($226.2bn) of public funds into the financial sector and make Y2,000bn of income tax cuts in 1998.

Any sign that these measures, announced last month, were threatened could push the stock market sharply lower.

Conversely, government hints of additional help, particularly further tax cuts, would be very supportive, analysts say. One senior LDP official dropped hints late on Friday that he would relish further tax cuts to push the market sharply higher.

On the international front, an escalation of the Indonesian crisis could hurt some Japanese stocks.





Japanese banks, for example, have a large loan exposure to the country, much of which is to Indonesian, rather than Japanese, companies.

However, another key focus will be the currency: after falling to a 5½-year low of Y134.8 against the dollar last week, the currency rebounded on US intervention rumours. Some traders fear a further fall would hurt the stock market by triggering a broader "sell Japan" mentality.

COMMODITIES By Robert Corzine

Another uncertain week in prospect for oil

Oil traders are preparing for another uncertain week in the world's petroleum markets. Crude prices have been wallowing around 30-month lows, with only a few technical rallies offering any respite from the gloomy market fundamentals.

The depression stems from *the possibility that 1998 may* turn out to be a year in which world oil production outstrips demand. Bearish factors have so far dominated the markets, beginning with the economic and currency turmoil in a number of Asian countries.

Pessimists fear that not only will Asian energy demand plummet but that the Asian situation could also hit GDP and energy demand growth in North America and Europe.

The prospect of greater Opec output following last November's 10 per cent rise in the group's production ceiling has added to the gloom, as has the expected resumption this week of Iraqi exports. The announcement that the US intends to retain two aircraft carriers in the Gulf until it is clear whether Saddam Hussein will allow UN arms inspectors unfettered access to his presidential sites failed to offset the bearish impact of *supertankers arriving at the* Turkish port of Ceyhan to load Iraqi crude.

The mild temperatures so far this year in many parts of North America and Europe have also stripped the market of a favourite winter rallying point. Last week in New York, the centre of the biggest heating oil market, temperatures were almost spring-like.

Another uncertainty has been the level of non-Opec output this year. Last year *there were numerous delays* to new fields in non-Opec countries, which underpinned prices. But a study published today by Wood Mackenzie, the Edinburgh consultants, offers little solace to those hoping for a repeat performance by non-Opec producers.

Total North Sea output, which includes that of Norway, the world's second largest oil exporter, is expected to reach a new record of 6.57m barrels a day, 8 per *cent up on the 6.08m b/d estimated* average for 1997.

Wood Mackenzie predicts UK oil production will also rise by 8 per cent, to a record 2.84m b/d.

CURRENCIES By Richard Adams

US, IMF visits keep focus on east Asia

Visits by US and International Monetary Fund officials to Indonesia this week will keep the market's focus firmly on the currencies of east Asia.

At the forefront is the Indonesian rupiah, which was just six months ago trading at Rp2,400 against the US dollar. Over the weekend – having made a slight recovery at the end of last week – the rupiah reached about Rp9,600.

Last week's budget, aimed at a domestic Indonesian audience, underestimated the international reaction to ignoring the reforms recommended by the IMF, and set the rupiah and Jakarta equities off on a further downward spiral.

Traders who like to live dangerously may look to exploit the rupiah's volatility before the end of talks between Indonesia and the US-IMF team. But the key issue in Asia remains the inability of the countries involved to meet their debt obligations. South Korea, Indonesia, Thailand and Malaysia combined owe an estimated $400bn. More than half of the total, some $240bn, is short-term debt.

Much of the debt belongs to the private sector, and was lent on the basis of previously buoyant cashflow positions. But the slump in value of the region's currencies and higher interest rates mean the corporate sector is unable to meet its obligations. Governments themselves have little left in foreign reserves – which suggests a debt moratorium or even a sovereign default is a strong possibility.

East Asian countries are not the only ones with a high level of short-term foreign currency debt. Korea's ratio of short-term debt to foreign exchange reserves is 224 per cent – but South Africa's ratio is 293 per cent.

Happily for South Africa, its total short-term debt owed to banks is just $13bn, compared with South Korea's $70bn and Thailand's $45.6bn.

Russia is in a slightly worse position. Although its ratio of debt to reserves is 205 per cent, its short-term debt is $38.3bn compared with $18.7bn of reserves, according to IMF figures.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, January 9, 1998. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7670.78	4750.00	2609.46	3611.48
Albania	(Lek)	240.620	149.000	81.8548	113.287
Algeria	(Dinar)	95.1015	58.8900	32.3518	44.7748
Andorra	(French Fr)	9.8394	6.0929	3.3473	4.6325
	(Sp Peseta)	249.203	154.315	84.7768	117.328
Angola	(Readj Kwanza)	415236.3	257128.0	141255.8	195497.4
Antigua	(E Carib $)	4.3602	2.7000	1.4833	2.0528
Argentina	(Peso)	1.6140	0.9995	0.5491	0.7599
Armenia	(Dram)	800.287o	495.570	272.246	376.788
Aruba	(Florin)	2.8907	1.7900	0.9834	1.3610
Australia	(Aus $)	2.5024	1.5495	0.8513	1.1781
Austria	(Schilling)	20.6793	12.8053	7.0349	9.7360
Azerbaijan	(Manat)	6378.86o	3950.00	2169.97	3003.23
Azores	(Port Escudo)	300.678	186.190	102.288	141.562
Bahamas	(Bahama $)	1.6149	1	0.5494	0.7603
Bahrain	(Dinar)	0.6088	0.3770	0.2071	0.2866
Balearic Is	(Sp Peseta)	249.203	154.315	84.7768	117.328
Bangladesh	(Taka)	73.3973	45.4500	24.9691	34.5562
Barbados	(Barb $)	3.2481	2.0113	1.1049	1.5292
Belarus	(Rouble)	68415.3o	42365.0	23273.6	32210.6
Belgium	(Belg Fr)	60.6476	37.5550	20.6316	28.5535
Belize	(B $)	3.2298	2.0000	1.0987	1.5206
Benin	(CFA Fr)	983.940	609.290	334.729	463.250
Bermuda	(Bermudian $)	1.6149	1	0.5494	0.7603
Bhutan	(Ngultrum)	64.0954	39.6900	21.8047	30.1768
Bolivia	(Boliviano)	8.6632	5.3600	2.9558	4.0805
Botswana	(Pula)	6.1882	3.8314	2.1049	2.9131
Brazil	(Real)	1.8041	1.1172	0.6137	0.8494
Brunei	(Brunei $)	2.8640	1.7735	0.9743	1.3484
Bulgaria	(Lev)	2937.51	1819.00	999.286	1383.01
Burkina Faso	(CFA Fr)	983.940	609.290	334.729	463.250
Burma	(Kyat)	10.0959	6.2517	3.4344	4.7532
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	(Fr)	9.8394	6.0929	3.3473	4.6325
Fr. Cty/Africa	(CFA Fr)	983.940	609.290	334.729	463.250
Fr. Guiana	(Local Fr)	9.8394	6.0929	3.3473	4.6325
Fr. Pacific Is	(CFP Fr)	177.074	109.650	60.2373	83.3662
Gabon	(CFA Fr)	983.940	609.290	334.729	463.250
Gambia	(Dalasi)	16.2996	10.0933	5.5448	7.6740
Germany	(D-Mark)	2.9395	1.8203	1	1.3840
Ghana	(Cedi)	3645.64	2257.50	1240.21	1716.40
Gibraltar	(Gib £)	1	0.6192	0.3402	0.4708
Greece	(Drachma)	464.978	287.930	158.182	218.917
Greenland	(Danish Krone)	11.1935	6.9314	3.8079	5.2700
Grenada	(E Carib $)	4.3602	2.7000	1.4833	2.0528
Guadeloupe	(French Fr)	9.8394	6.0929	3.3473	4.6325
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
N'nd Antilles	(A/Guilder)	2.8907	1.7900	0.9834	1.3610
New Zealand	(NZ $)	2.8255	1.7496	0.9612	1.3303
Nicaragua	(Gold Cordoba)	16.1490	10.0000	5.4936	7.6031
Niger Rep	(CFA Fr)	983.940	609.290	334.729	463.250
Nigeria	(Naira)	35.3437o	21.8860	12.0233	16.6402
	(Naira)	121.664m	75.3380	41.3888	57.2804
Norway	(Nor. Krone)	12.0671	7.4724	4.1051	5.6813
Oman	(Rial Omani)	0.6217	0.3850	0.2115	0.2927
Pakistan	(Pak. Rupee)(4)	71.0653	44.0060	24.1758	33.4583
Panama	(Balboa)	1.6149	1	0.5494	0.7603
Papua New Guinea	(Kina)	2.8282	1.7513	0.9621	1.3315
Paraguay	(Guarani)	3714.27	2300.00	1263.53	1748.72
Peru	(New Sol)	4.4192	2.7365	1.5034	2.0806
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yugoslavia	(New Dinar)	9.4648	5.8609	3.2197	4.4561
Zambia	(Kwacha)	2395.95	1465.08	804.876	1113.91
Zimbabwe	($)	29.9728	18.5600	10.1964	14.1114
ECU	(ECU)	1.4993	0.9219	0.5063	0.7007
SDR	(SDR)	1.21653	0.749798	0.410573	0.565878

Abbreviations: (o) Free rate; (m) Market rate; (o) Official rate; (r) Parallel rate (t) Tourist rate (u) Currency fixed against the US Dollar (v) Floating rate (1) Market rate now shown for Cuba (2) Name changed from Zaire on May 19th 1997, currency scheduled to change to Congolese Francs (3) Guinea-Bissau adopted the CFA Franc to replace the Peso on 1/5/97 (4) Pakistan Rupee devalued by 9% on 16/10/97 (5) Rouble rebased on 1/1/98: FT enquiries to Business Research Centre 0171 258 5130. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4365. To obtain a copy of this table by Fax from the Cityline service dial 0891 437001. Calls are charged at 50p per minute at all times. FT Cityline apologises for the recent suspension in service. We are now pleased to inform users that the service is once again fully operational.

Friday, January 9, 1998

OTHER MARKETS Compiled by Jeffrey Brown

HONG KONG

Investors are bracing themselves for a turbulent week, *writes Louise Lucas in Hong Kong.*

Investor fears range from the fall-out from Peregrine, the home-grown Hong Kong bank facing collapse, to potential attacks on the currency and rising interest rates.

On Friday, banks lifted *prime lending rates by* 75 basis points, reflecting higher interbank rates. The move will further depress the property and finance sectors just as doubts abound about the outcome of this week's land auction.

The benchmark Hang Seng Index fell 14 per cent last week, closing at its lowest level since May 1995, partly on financial turmoil in the region but also reacting to the increasing interbank rates. Red chips and other China-related stocks have been especially badly hit as investors seek out defensive plays such as utility and telecoms stocks.

The 1998 market p/e is 8 times, but investor sentiment remains weak. Growth in property, services and tourism have faltered. Chicken flu and the weak yen are widely expected to have created one of the worst Christmas shopping seasons in memory.

PARIS

The new-year rally in French equities was pushed on to the back burner last week as *nasty jolts for the* heavyweight banks and oil companies sent the market lower.

Worries about Asian lending exposure trampled the banking sector while Total and Elf Aquitaine fell foul of oil price slippage, sparking a round of broker earnings downgrades for the sector worldwide.

Against this, the growing concentration on more defensive sectors has accelerated. Stocks such as France Telecom have seen extensive buying, helped by recent strong cellular subscriber figures.

The broad feeling among brokers is that investor sentiment remains relatively robust.

Paris was the European back-marker last year and is one of the more defensive markets at the start of 1998. At 17.5, its current year earnings multiple is almost five short of Germany.

MILAN

Milan was one of the few European markets to end with a net gain last week, having surged in the wake of *the 75 points cut in* key lending rates by the Bank of Italy on Christmas Eve.

The scale of the cut took analysts by surprise and added fresh fuel to market speculation about further significant rate reductions in the run up to notification of the first-wave Emu entrants.

The final Emu seal of approval is due in May. The Bank of Italy may play a cautious game until then. But the potential is huge, with rates possibly sliding to below 4 per cent from the current 5.5 per cent.

This would trigger a landslide out of bonds into equities, which is precisely what the Milan focus is presently all about.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Federal-Mogul (US)	T&N (UK)	Auto parts	$2.5bn	Unconditional
Vodafone (UK)	*Libertel* (Netherlands)	*Telecoms*	*$440m*	*Stake to 61.5%*
Frontline (Bermuda)	ICB Shipping (Sweden)	Transport	$400m	Bid abandoned
Promodes (France)	GIB (Belguim)	Retailing	$292m	Consolidation
CGD (Portugal)	GFB (Brazil)	Banking	est $270m	Seeking control
Sykes Enterprises (US)	McQueen International (UK)	Business services	$129m	Paper + debt
Sony (Japan)	NextLevel Systems (US)	Communications	$118m	TV systems stake
Lucas Varity (UK/US)	Freios Varga (Brazil)	Auto parts	$115m	Full control
Softbank (Japan)	GeoCities (US)	Communications	$51m	Internet move
HSBC (UK)	HSBC Simpson McKie (SA)	Banking	$33m	Minority buy-out

EMERGING MARKETS By Sander Thoenes

Indonesia looks to IMF

Indonesia's stock market fell to record lows last week, *amid signs* that even a revival of a government reform package agreed with the International Monetary Fund would do little to solve the private debt crisis that has rocked the country.

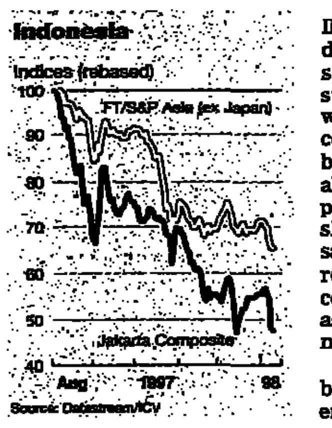
Jakarta's stock market index closed on Friday at 343 points, compared with 740 last July 8, losing a further 16.3 per cent in one week. Much of the fall was blamed on an even sharper decline in the rupiah, from Rp2,400 to the US dollar early last year to Rp10,000 on Thursday, quadrupling the rupiah cost of servicing more than $80bn in private debt.

The combination of looming debt and depreciation has left the Indonesian market with a capitalisation of less than $20bn, against $100bn in June when it overtook Bangkok as the region's fourth largest stock market.

The rupiah recovered by 16 per cent on Friday, mostly *on the back of state* banks buying at the government's behest, trading at Rp8,000 to Rp8,200. Some bankers said even the US Federal Reserve had intervened after Asian turmoil caused the Dow Jones Industrial Average to fall by 222 points on Friday.

The market appeared to be responding as well on Friday to the news that Michel Camdessus, managing director of the International Monetary Fund, and US deputy treasury secretary Larry Summers would arrive this week to persuade President Suharto to implement economic reforms. Stanley Fischer, deputy to Mr Camdessus, started talks with Indonesian officials on Sunday.

Some traders believed Indonesia's enterprises would start defaulting en masse on short-term debt,



Source: Datastream/ICV

which would reduce their need for dollars, but most presumed that any recovery would spark another round of dollar buying as borrowers know their credit rating would be shot for years to come if they failed to pay.

With ABN Amro estimating that $59bn of $80.8bn in private foreign debt will come due this year, demand for dollars seems assured.

"The situation is very critical," said Cees de Koning, at ABN Amro in Jakarta. "If something is not done very soon, the whole corporate sector will collapse."

Pentasena Securities estimated that only 22 of Indonesia's 282 listed companies still had sufficient cash-flow to operate. Even that list included two companies known to have defaulted, although neither they nor their lenders have confirmed this. A local property analyst estimated that all 23 listed property firms were technically bankrupt, with a combined debt of $3.4bn outstripping assets by 2-to-1 at an exchange rate of Rp10,000.

Mr de Koning has called for the creation of a credit clearing corporation, run by the foreign lenders, for collecting *rupiah payments of* rescheduled debt and ensuring dollar payments to the lenders through the central bank. There has been no indication that IMF or US officials want to discuss private debt rescheduling, as happened in South Korea, and some felt foreign banks should take the initiative.

Mr de Koning is optimistic the combination of a revived IMF package and a collective debt rescheduling would send the rupiah and the stock markets soaring. It would encourage Indonesia's conglomerates to repatriate billions of dollars hidden abroad to pay off debt and purchase undervalued shares and enterprises, he said, adding: "If the trend is reversed that money will come back quickly. As long as the rupiah falls it makes no sense to bring it back."

But another western banker said that Indonesia's enterprises could and should pay debts or sell assets. "It takes some time before people are truly to the wall and are willing to sell at prices others are willing to pay," he said. While western lenders know a bankruptcy law that could force debt payments is absent, he added, they would be unwilling to sacrifice revenue for the sake of Indonesian conglomerates that do not.

Some western brokers say some of the healthier enterprises on the exchanges have become cheap in dollar terms. Schroders and others have listed second-tier food companies, palm oil plantations and telecommunications ventures as bargains.

Thomas Shreve of Peregrine Sewu Securities said some shares suffered from being liquid, enabling foreign investors to pull out easily; others were illiquid or bought up by powerful patrons, cushioning the fall.

Others are looking not at buying shares but companies and other assets from debt-ridden conglomerates. "We're looking at opportunities the likes of which we have never seen before in any Asian country," said Patrick Alexander, fund manager at Peregrine.

Peregrine's own troubles, however, highlight the risk of coming in early, and many others prefer to be more cautious. Now that a debt crisis has turned into an economic crisis, even companies with low leverage and few imports are likely to be hurt by falling domestic demand as the government cuts spending and Indonesians tighten their belts.

Emerging markets: IFC weekly investable price indices

Market	No. of stocks	Dollar terms: Jan 8 1998	% Change over week	% Change on Dec '97
Latin America	(269)	626.46	–8.2	–7.5
Argentina	(32)	1,009.74	–10.1	–9.5
Brazil	(75)	453.84	–8.0	–6.0
Chile	(50)	575.36	–10.7	–10.5
Colombia[1]	(15)	779.71	–4.4	–5.5
Mexico	(61)	731.83	–6.9	–7.1
Peru[2]	(24)	207.29	–6.9	–6.4
Venezuela[3]	(12)	836.57	–8.3	–8.6
Asia	(758)	89.60	–15.5	–16.8
China[4]	(43)	43.42	–21.1	–21.5
South Korea[5]	(184)	25.77	+7.3	+7.3
Philippines	(49)	90.01	–19.3	–20.4
Taiwan, China[6]	(98)	126.93	–10.0	–10.0
India[7]	(72)	81.35	–3.8	–2.4
Indonesia[8]	(61)	15.26	–52.0	–54.7
Malaysia	(157)	65.71	–24.5	–27.9
Pakistan[9]	(24)	233.38	–6.0	–6.0
Sri Lanka[10]	(5)	118.41	–0.2	+1.8
Thailand	(65)	41.09	–12.6	–12.6
Euro/Mid East	(396)	144.20	–2.0	–2.0
Czech Rep	(6)	52.31	–3.7	–4.4
Egypt	(28)	91.89	–1.7	–1.4
Greece	(54)	322.57	–0.1	–0.4
Hungary[11]	(13)	315.56	+0.5	+0.3
Israel	(46)	117.92	–3.5	–3.1
Jordan	(6)	209.22	–0.5	–0.5
Morocco	(11)	128.60	–1.3	–1.3
Poland[12]	(29)	581.85	–2.4	–2.5
Portugal	(23)	219.04	+1.6	+3.8
Russia	(30)	138.72	–4.3	–4.3
Slovakia	(5)	93.25	–6.2	–6.0
South Africa[13]	(77)	172.01	–4.0	–4.3
Turkey[14]	(58)	317.03	+2.0	+1.6
Zimbabwe[15]	(10)	272.71	+9.2	+8.4
Composite	(1,423)	226.41	–7.8	–7.8

Indices are calculated at end-week; weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

RISK MANAGEMENT By Samer Iskandar

Asian crisis boosts credit derivatives

Credit derivatives, a fast-growing market on which bankers are pinning high hopes, have started to live up to their promises.

"The turmoil in Asian markets has put the spotlight on credit derivatives," says a London-based analyst. "And the expected economic downturn should encourage investors to review their credit protection."

Credit derivatives are financial instruments that allow traders and investors to speculate on – or protect themselves against – changes in the creditworthiness of a borrower or group of borrowers.

In the past month, they have allowed investors to recover at least $800m from Korean and Thai borrowers.

This was made possible by the existence of specific clauses in bond contracts that protect investors from a deterioration in the creditworthiness of the borrowers – the Korean Development Bank and the Industrial Finance Corporation of Thailand.

The $300m of KDB bonds were due to mature in June 2002. The $500m of IFCT bonds were issued in two tranches, maturing in 2002 and 2007 respectively.

The early redemption provisions were triggered last month when credit rating agencies lowered the sovereign ratings of Thailand and South Korea to speculative – or junk – status.

The risk of default by a speculative-grade borrower over a 12-month period is 3.38 per cent, according to historical data from Moody's Investors Service, the credit rating agency. This risk is almost nil for investment-grade issuers.

Bankers also believe that credit derivatives have helped investors to overcome liquidity problems, especially in Korea. Bill Denchak, head of global structured finance at J.P. Morgan in New York, says: "It is interesting that in this crisis we saw what was an embryonic market behave more efficiently than the underlying bond market."

Historically, investors have estimated a borrower's default risk from the yield spread of its bonds over US Treasuries.

With the development of credit derivatives, this risk is now also reflected in the price of default swaps – derivatives that protect investors against a default.

Last week, in Korea's case, these two risk measures differed by up to 200 basis points: holders of Korean bonds were charging borrowers two percentage points less than traders offering pure "insurance" against a default. Analysts blame the discrepancy on a shortage of liquidity in the bond market.

"When the sell-off started, Korea's spread [over Treasuries] widened to 500 basis points to reflect the increased risk," one US banker explains. "Then the spread came back to 300 basis points. This did not mean that the risk had gone, but was due to a squeeze on the bonds."

To benefit from a falling market, traders must go "short" – sell bonds they do not own and borrow them on the repo market until they can buy them back at a lower price.

The spread tightening was caused by a surge in demand for the bonds on the repo market, rather than by investors seeking to buy.

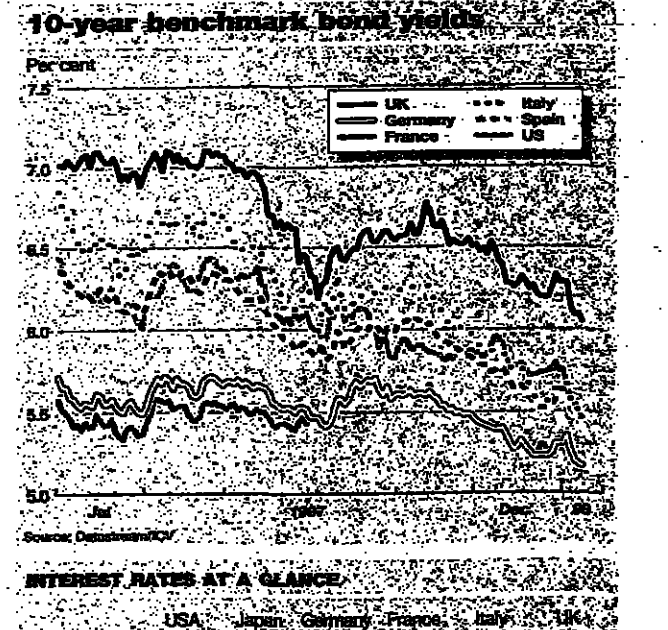
"The real price of Korean risk is in the credit market, not in the bond market," one analyst says. "It is much cheaper to buy Korean exposure through a credit default swap than by buying bonds."

The underlying amount of credit derivatives is believed to have more than doubled from $20bn in 1996, according to a survey by the British Bankers Association. It is expected to reach $100bn before 2000.

Analysts are hoping the Asian turmoil will increase activity in credit derivatives as a risk management tool.

A report by Moody's, due to be published this month, confirms this view. The authors believe last year was "a turning point for bond defaults", up 65.5 per cent on 1996 to $8.34bn, and expect this to be repeated this year.

The study also shows that since the second world war, only 20 Asian borrowers have defaulted on publicly-held bonds. Of these defaults, 19 occurred in 1997.



Source: Datastream/ICV

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	3.30	5.50	7.25
Overnight	n/a	n/a	3.35	3.36	6.31	n/a
Three month	5.08	0.36	3.53	3.33	5.86	7.45
One year	5.15	0.54	3.80	3.57	5.02	7.02
Five year	5.30	1.16	4.63	4.55	4.97	6.27
Ten year	5.45	1.88	5.08	5.09	5.40	6.07

(1) France intervention rate. (2) UK Base rate. Source: Reuters.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Bayerische Landesbank(a)	250	Oct 2000	6.00	100.43R	5.812	+17(6%Nov00)	CSFB/Nikko Europe
Popular Finance(Cayman)‡	250	Jul 1999	(b)	100.075	-	-	Deutsche Morgan G'fell
Bayerische Hypo	200	Feb 2002	6.00ϕ	100.00R	6.000	+34(5¾Nov00)	ABN Amro Bank
World Bank	1bn	Jan 2003	5.50	99.25R	5.678	+17(5⅝Dec02)	SBC Warburg DR
KfW International Finance	500	Jan 2008	5.75	99.053R	5.878	+30(6¼Aug07)	CSFB/Deutsche MG
SuedwestLB Capital Markets	500	Jan 2008	6.00	99.974R	6.004	+40(6⅛Aug07)	CSFB/Salomon SB
BNG	400	Feb 2001	5.625	99.763R	5.713	+16(5¾Nov00)	Dresdner/Salomon SB
Ford Motor Credit Co	1bn	Jan 2003	6.00#	99.974R	6.006	+59(5⅝Dec02)	Morgan Stanley DW
European Investment Bank	750	Jan 2008	5.75	99.448R	5.824	+25(6⅛Aug07)	ABN Amro/Salomon SB
Council of Europe	750	Jan 2003	5.75	99.963R	5.759	+24(5⅝Dec02)	Merrill/Nomura Intl
Cavmadrid International‡	630	Jan 1999	(f)	100.023	-	-	Barclays/Deutsche MG
Hellenic Republic‡	200	Jan 2003	(g)	99.74	-	-	Dresdner KB
World Bank(j)★	200	Feb 2001	3.00#	94.374	5.04	-	Nikko Europe
IBM Credit Corp(h)§	125	Feb 2003	2.09	109.60	-	-	SBC Warburg DR
Hypothekenbank in Essen(o)	*1bn*	*Jan 2003*	*5.625#*	*99.553R*	*5.729*	*+36(5⅝Dec02)*	*Commerzbank/Lehman*
Den norske Bank‡	400	Jan 2003	(p)	99.903R	-	-	ABN Amro/Barclays
CCDQ‡	300	Jan 2003	(q)	99.966R	-	-	JP Morgan Securities
Suncorp-Metway‡	300	Jan 2001	(r)	99.917R	-	-	Deutsche Morgan G'fell
L-Bank	250	Feb 2002	5.625	99.875R	5.661	+21(5¼Nov00)	ING Barings
Siemens Capital Corp	200	Feb 2001	4.50	96.936R	5.639	+15(5¼Nov00)	Commerzbank
Midland Bank‡	1bn	Jan 2003	(A)	99.847R	-	-	HSBC Markets
LB Rheinland-Pfalz(B)★	115	Jan 2002	5.40	100.00	-	-	IBJ Intl/New Japan
D-MARKS							
DSL Bank	1bn	Jan 2008	5.375	99.08R	5.497	+25(6%Jul07)	Deutsche MG/SBCWDR
Draeger Finance‡	100	Jan 2003	(c)	100.00	-	-	Dresdner KB
European Investment Bank	1.5bn	Feb 2003	4.50(l)	98.75R	4.787	+8(4½%Aug02)	DKB/Paribas/SBCWDR
World Bank	500	Dec 2003	4.75(s)	99.512R	4.85	+5(6%Sep03)	ING Barings
Suedwestdeutsche LB(d)‡	100	Feb 2010	(d1)	99.875R	-	-	Morgan Stanley DW
Mannesmann Finance	900	Jan 2005	5.25	99.71R	5.301	+30(7⅜Jan05)	Deutsche Morgan G'fell
Bremer Landesbank Finance	100	Feb 2004	5.00	99.95R	5.010	+15(6%Nov03)	BEL/Kredietbank
Export-Import Bk of Japan	900	Jan 2003	4.75	99.444R	4.878	+20(4½Aug02)	Deutsche Morgan G'fell
State of Baden Wuerttemberg	1bn	Jan 2028	5.75	98.756R	5.839	+18(6½-2027)	Barclays/M. Stanley
KfW	*750*	*Jan 2018*	*5.50*	*99.09R*	*5.577*	*+18(6%-2016)*	*Dresdner KB*
STERLING							
Deutsche Ausgleichsbank	300	Jan 2008	6.50	99.701R	6.542	+30(7¼Dec07)	HSBC Mkts/JP Morgan
European Investment Bank	500	Dec 2008	6.25(s)	99.04R	6.378	+19(9%Oct08)	Barclays/HSBC Markets
World Bank	150	Jan 2000	6.875	100.009R	6.870	+12(6%Aug99)	ABN Amro Bank
Prudential Corp	300	Jan 2023	6.875	99.499R	6.918	+75(8%-2021)	SBC Warburg DR
Bank of Nova Scotia‡	250	Feb 2003	(i)	99.93R	-	-	Barclays Capital Group
Northumbrian Water Grp(t)	200	Feb 2023	6.875	98.61R	6.994	+85(8%-2021)	Barclays Capital Group
KfW International Finance(C)	*75*	*Nov 2004*	*6.625*	*101.619*	*6.321*	*-*	*Deutsche/JP Morgan*
Rabobank Nederland(D)	50	Feb 2000	6.75	100.99	6.208	-	HSBC Markets
YEN							
BGB Finance Ireland(k)★	20.5bn	Jul 2001	4.00#	100.00	-	-	Daiwa Europe
FRENCH FRANCS							
Baden-Wuerttemberg L-Fin	3bn	Feb 2010	5.375	99.533R	5.429	+20(l)	CDC/JP Morgan
International Endesa	2bn	Feb 2009	5.375	99.497R	5.437	+25(l)	Paribas
Bremer Landesbank	1.5bn	Feb 2006	5.25	99.923R	5.262	+24(l)	Bqe Nationale de Paris
Halifax‡	1bn	Jan 2009	(u,s)	99.883	-	-	Cdt Agricole Indosuez
Westdeutsche Landesbank	*5.25*	*Apr 2008*	*5.25(s)*	*99.262R*	*5.346*	*+23(5¼Apr08)*	*CAI/SocGen*
SWISS FRANCS							
Republic of Austria	1.5bn	Jan 2006	3.25	102.20	2.937	-	CSFB
Toyota Motor Credit Corp	1bn	Jan 2004	3.00	100.025R	2.995	-10(6yr Lbr)	SBC Warburg DR
Bayerische Landesbank	1bn	Feb 2003	3.00	102.75	2.410	-	CSFB
World Bank(e)	200	Dec 2001	2.50	101.80	1.877	-	Bqe Paribas (Suisse)
City of Vienna	250	Jan 2004	3.00(s)	102.65	-	-	Bank von Ernst
GUILDERS							
SNS Bank	500	Jan 2008	5.50	99.27R	5.597	+39(l)	ING Barings
ITALIAN LIRE							
World Bank‡	550bn	Feb 2010	(m)	100.385R	-	-	BCI/Cabota/Cariplo/JPM
Crédit Local de France‡	200bn	Jan 2013	(n)	99.75R	-	-	Morgan Stanley DW
European Investment Bank	750bn	Feb 2018	5.50(s)	98.485R	5.628	-	IMI Bank Luxembourg
Eurofima‡	200bn	Feb 2011	(v)	100.955	-	-	BNL/JP Morgan Secs
DePfa Bank‡	150bn	Jan 2018	(w)	99.375R	-	-	Morgan Stanley DW
EBRD‡	150bn	Feb 2010	(x)	100.80	-	-	Cariplo
Rabobank Nederland(y)‡	150bn	Feb 2008	(y1)	99.90R	-	-	Credito Italiano
KfW International Finance‡	150bn	Feb 2013	(E)	99.70R	-	-	MPS/Sanwa Intl
Crediop Overseas‡	150bn	Feb 2003	(F)	100.00R	-	-	JP Morgan Securities
EBRD(G)	3000bn	Feb 2048	zero	5.986R	6.800	-	Morgan Stanley DW
AUSTRALIAN DOLLARS							
Toyota Finance Australia	250	Feb 2003	5.50	100.435	5.398	-	Hambros Bank
National Australia Bank	100	Feb 2005	6.00	101.595	5.717	-	TD Securities
KfW International Finance	100	Feb 2003	5.625	101.13	5.361	-	TD Securities
GECC	100	Feb 2001	5.25	100.955	4.900	-	TD Securities
LUXEMBOURG FRANCS							
Bacob Overseas(l)	3bn	May 2003	5.00	101.75	4.607	-	Bacob Bank Lux
Argenta Nederland	2bn	Feb 2003	5.00	100.00	5.00	-	BCEE
DANISH KRONER							
Crédit Local de France	400	Feb 2003	5.125	102.00	4.667	-	BIL
CANADIAN DOLLARS							
Bayerische Landesbank	200	Feb 2003	5.25	99.30R	5.414	+15(5½Sep02)	TD Securities
BNG	100	Feb 2001	5.125	99.725R	5.226	+5(l)	CIBC Wood Gundy
Commerzbank AG	100	Feb 2001	5.00	99.0125R	5.265	+15(l)	TD Securities
Toronto-Dominion Bank	100	Feb 2000	5.25	99.925R	5.291	+13(5½Feb00)	TD Securities
NEW ZEALAND DOLLARS							
Bayerische Vereinsbank	100	Feb 2001	7.75	100.96	7.382	-	Hambros Bank
Commerzbank AG(z)	100	Feb 2000	6.00	100.875	7.513	-	TD Securities
LB Schleswig-Holstein	100	Feb 2000	8.00	100.82	7.543	-	Hambros Bank
SWEDISH KRONOR							
Bayerische Hypo	500	Feb 2005	6.00	101.975	5.651	-	Kredietbank Intl Group
European Investment Bank	750	Feb 2003	5.625	101.917	5.180	-	Kredietbank Intl Group
SOUTH AFRICAN RAND							
European Investment Bank	300	Feb 2003	13.50	101.28	13.13	-	Hambros Bank
World Bank	1bn	Jan 1999	13.875	100.00R	13.88	-	TD Securities
CZECH KORUNA							
World Bank	3bn	Jan 1999	15.75	100.00R	15.75	-	ING Barings
HONG KONG DOLLARS							
Council of Europe	500	Jan 2000	11.00	100.00	11.00	-	Goldman Sachs

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ϕWith equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Fungible with $500m. Plus 95 days accrued. b) 3-mth Libor flat. c) 6-mth Libor +50bp. d) Callable on 5/2/99 at par. d1) 11½% in 1st yr, then 16% - 2 x 12-mth Libor. e) Fungible with SFr300m. Plus 41 days accrued. f) 3-mth Libor -⅛%. g) 3-mth Libor +⅛%. h) Exchangeable into Dow Jones Industrial Average at 9482.724. Callable from 4/2/01, subject to 105% hurdle, at par. i) Over interpolated yield. j) 3-mth Libor flat. k) Redeemed in US$. l) Long 1st coupon. m) 10½% in yr 1, 7% in yrs 2 & 3, then 15% - 2 x 12-mth Libor; max 8½%, min zero in yrs 4-8 and 8½% in yrs 9-12. n) 12% in yr 1, 9% in yr 2, 8% in yr 3, then 15½% - 2 x 12-mth Libor. o) Oeffentliche Pfandbrief. p) 3-mth Libor +⅛%. q) 3-mth Libor +5bp. r) 3-mth Libor +20bp. s) Short 1st coupon. t) Standard utility investor put. Spens call provision. u) Tec-10 -70bp. v) 11½% in yr 1, 7% in yrs 2-3, then 15% - 2 x 12-mth Libor; max 6½%, min zero to yr 9 then 2½%. w) 12% in yr 1, 9% in yr 2, 8% in yr 3, 7½% in yrs 4-5, then 15% - 2 x 12-mth Libor. x) 12% in yr 1, 8½% in yrs 2-3, then prior yr coupon + 10% - 2 x 12-mth Libor; max 7½%. y) Callable on 18/2/00 at par. y1) 6-mth Libor +30bp to Feb 00, then 6%pa fixed. z) Includes NZ$100m increase at 100.685%. A) 3-mth Libor +5bp. B) Quarterly coupons, long last. C) Fungible with £200m. Plus 57 days accrued. D) Fungible with £50m. No accrued. E) 12% in yr 1, 7% in yrs 2-3, then 15% - 2 x 12-mth Libor. F) 3-mth Libor +35bp when Libor between 3¾-7¼%, otherwise 2%. G) Call on 4/2/28 at 32.38%. Note: Yields are calculated on ISMA basis.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Jan 9		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.6793	+0.0236	695 - 891	20.7413	20.5684	20.6143	3.8	20.4894	3.7	20.0099	3.2	102.5
Belgium	(BFr)	60.6476	+0.0848	046 - 906	60.8100	60.3370	60.4457	4.0	60.0636	3.9	58.5951	3.4	101.9
Denmark	(DKr)	11.1935	+0.0155	884 - 986	11.2236	11.1323	11.1694	3.7	11.0944	3.5	10.8521	3.0	104.4
Finland	(FM)	8.9026	+0.0104	970 - 081	8.9250	8.8560	8.872	4.1	8.8153	3.9	8.6053	3.3	80.6
France	(FFr)	9.8394	+0.0103	341 - 447	9.8681	9.7868	9.8073	3.9	9.7464	3.8	9.5067	3.4	105.4
Germany	(DM)	2.9395	+0.0034	382 - 408	2.9495	2.9233	2.9297	4.0	2.9114	3.8	2.8399	3.4	103.0
Greece	(Dr)	464.978	+0.519	737 - 219	465.930	458.052	470.316	-13.8	480.215	-13.1	508.097	-8.8	65.1
Ireland	(I£)	1.1788	-0.004	773 - 803	1.1844	1.1763	1.1779	0.8	1.1746	1.4	1.15	2.4	83.1
Italy	(L)	2886.85	+2.22	735 - 035	2898.46	2874.27	2885.94	1.2	2878.26	1.5	2824.94	2.2	75.6
Luxembourg	(LFr)	60.6476	+0.0848	046 - 906	60.8100	60.3370	60.4457	4.0	60.0636	3.9	58.5951	3.4	101.9
Netherlands	(Fl)	3.3190	+0.0043	111 - 148	3.3218	3.2953	3.3018	4.1	3.2806	3.9	3.2001	3.4	101.2
Norway	(NKr)	12.0671	-0.0122	612 - 730	12.1206	12.0022	12.028	3.9	11.9551	3.7	11.7067	3.0	97.9
Portugal	(Es)	300.678	+0.531	504 - 852	301.380	299.097	300.075	2.4	298.791	2.5	292.344	2.8	91.5
Spain	(Pta)	249.203	+0.414	054 - 353	250.120	247.940	248.668	2.6	247.542	2.7	242.257	2.8	76.6
Sweden	(SKr)	12.9118	-0.0602	021 - 214	12.9697	12.8961	12.881	2.9	12.8245	2.7	12.6194	2.3	84.9
Switzerland	(SFr)	2.3848	+0.008	832 - 863	2.3902	2.3728	2.372	6.4	2.3487	6.1	2.2544	5.5	107.9
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	103.6
Ecu	-	1.4883	+0.0013	871 - 895	1.4927	1.4818	1.4844	3.2	1.4767	3.1	1.4453	2.9	-
SDR†	-	1.216630	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6140	-0.002	134 - 148	1.6236	1.6121	-	-	-	-	-	-	-
Brazil	(R$)	1.8041	-0.0028	034 - 047	1.8147	1.8025	-	-	-	-	-	-	-
Canada	(C$)	2.2987	-0.0183	976 - 998	2.3175	2.2843	2.2929	3.1	2.2825	2.8	2.2447	2.3	83.1
Mexico	(New Peso)	13.0533	-0.0024	411 - 654	13.1130	12.9305	13.1892	-12.5	13.4457	-12.0	14.5434	-11.4	-
USA	($)	1.6149	-0.0014	144 - 154	1.6239	1.6130	1.6124	1.8	1.6077	1.8	1.588	1.7	109.9
Pacific/Middle East/Africa													
Australia	(A$)	2.5024	-0.0364	006 - 041	2.5514	2.4983	2.4974	2.4	2.487	2.5	2.4449	2.3	85.1
Hong Kong	(HK$)	12.5147	-0.0036	100 - 194	12.5771	12.4951	12.6167	-9.8	12.7801	-8.5	13.4183	-7.2	-
India	(Rs)	64.0954	+0.0171	594 - 314	64.5180	64.1020	-	-	-	-	-	-	-
Israel	(Shk)	5.7484	-0.0057	415 - 553	5.7553	5.7358	-	-	-	-	-	-	-
Japan	(Y)	212.400	-1.97	261 - 538	214.350	211.480	211.16	7.0	208.755	6.9	198.495	6.5	118.5
Malaysia	(M$)	7.4366	-0.1358	262 - 470	7.7221	7.3787	7.4455	-1.4	7.4917	-3.0	7.7656	-4.4	-
New Zealand	(NZ$)	2.8255	-0.0208	229 - 281	2.8683	2.8198	2.8295	-1.7	2.8356	-1.4	2.8582	-1.1	101.6
Philippines	(Peso)	72.1861	-0.4263	830 - 892	72.2892	71.1368	73.0367	-14.1	74.589	-13.3	82.3072	-14.0	-
Saudi Arabia	(SR)	6.0599	-0.0057	572 - 626	6.0929	6.0536	6.0522	1.5	6.038	1.4	5.979	1.3	-
Singapore	(S$)	2.8640	-0.0155	607 - 673	2.8885	2.8486	2.9202	-23.5	2.9637	-13.9	3.0387	-6.1	-
South Africa	(R)	7.9760	-0.0142	711 - 809	8.0109	7.9659	8.0325	-8.5	8.1275	-7.6	8.4985	-6.6	-
South Korea	(Won)	2921.36	+32.22	561 - 710	2938.39	2887.27	-	-	-	-	-	-	-
Taiwan	(T$)	55.1101	-0.4292	591 - 611	55.3831	55.0078	55.0448	1.4	54.9151	1.4	54.3725	1.3	-
Thailand	(Bt)	87.5881	+1.138	583 - 778	88.1350	84.2300	88.1052	-7.4	88.8633	-5.9	91.8706	-4.7	-

† Rates for Jan 8. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, offer, and spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jan 9		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.8053	+0.0257	032 - 074	12.8400	12.7130	12.7843	2.0	12.7449	1.9	12.6003	1.6	102.4
Belgium	(BFr)	37.5550	-0.085	400 - 700	37.6350	37.2900	37.4865	2.2	37.361	2.1	36.8975	1.8	101.9
Denmark	(DKr)	6.9314	+0.0156	304 - 324	6.9494	6.8812	6.9207	1.8	6.901	1.8	6.8337	1.4	103.7
Finland	(FM)	5.5128	+0.0112	110 - 145	5.5248	5.4735	5.5022	2.3	5.4834	2.1	5.4188	1.7	80.2
France	(FFr)	6.0929	+0.0117	915 - 943	6.1097	6.0480	6.0822	2.1	6.0625	2.0	5.9564	1.7	104.8
Germany	(DM)	1.8203	+0.0037	200 - 205	1.8254	1.8072	1.817	2.2	1.8111	2.0	1.7884	1.8	102.1
Greece	(Dr)	287.930	+0.57	870 - 990	288.530	283.140	291.675	-15.6	298.705	-15.0	318.69	-10.7	64.8
Ireland	(I£)	1.3700	+0.0035	686 - 713	1.3752	1.3655	1.369	0.9	1.3687	0.4	1.381	-0.8	-
Italy	(L)	1788.88	+2.93	850 - 925	1793.25	1776.25	1789.79	-0.6	1790.36	-0.3	1778.88	0.6	75.4
Luxembourg	(LFr)	37.5550	+0.085	400 - 700	37.6350	37.2900	37.4865	2.2	37.361	2.1	36.8975	1.8	101.9
Netherlands	(Fl)	2.0515	+0.0044	510 - 520	2.0568	2.0367	2.0476	2.3	2.0406	2.1	2.0151	1.8	101.1
Norway	(NKr)	7.4724	-0.001	710 - 737	7.4949	7.4180	7.4595	2.1	7.4365	1.9	7.3718	1.3	97.1
Portugal	(Es)	186.190	+0.49	140 - 240	186.510	184.090	186.097	0.6	185.855	0.7	184.09	1.1	92.1
Spain	(Pta)	154.315	+0.39	270 - 360	154.680	153.240	154.215	0.8	153.977	0.9	152.55	1.1	76.2
Sweden	(SKr)	7.9954	-0.0303	919 - 989	8.0293	7.9691	7.9884	1.1	7.9772	0.9	7.9465	0.6	84.2
Switzerland	(SFr)	1.4767	+0.0062	762 - 772	1.4805	1.4668	1.471	4.6	1.4609	4.3	1.4195	3.9	107.8
UK	(£)	1.6149	-0.0014	144 - 154	1.6239	1.6130	1.6124	1.8	1.6077	1.8	1.588	1.7	104.1
Ecu	-	1.0851	-0.0018	845 - 856	1.0923	1.0830	1.0863	-1.4	1.0887	-1.3	1.0989	-1.3	-
SDR†	-	0.74979	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9995	-0.0003	994 - 995	0.9995	0.9994	-	-	-	-	-	-	-
Brazil	(R$)	1.1172	-0.0006	171 - 172	1.1188	1.1171	-	-	-	-	-	-	-
Canada	(C$)	1.4235	-0.0088	232 - 237	1.4305	1.4215	1.4221	1.2	1.4199	1.0	1.4136	0.7	83.0
Mexico	(New Peso)	8.0830	+0.0055	780 - 880	8.0890	8.0780	8.1795	-14.3	8.3635	-13.9	9.158	-13.2	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	111.0
Pacific/Middle East/Africa													
Australia	(A$)	1.5495	-0.0212	489 - 501	1.5501	1.5489	1.5457	0.6	1.5461	0.9	1.5354	0.9	95.1
Hong Kong	(HK$)	7.7495	+0.0045	490 - 500	7.7500	7.7420	7.8245	-11.6	7.9495	-10.3	8.4435	-9.0	-
India	(Rs)	39.6900	+0.045	800 - 000	39.7450	39.6500	-	-	-	-	-	-	-
Israel	(Shk)	3.5596	-0.0004	564 - 628	3.5628	3.5507	-	-	-	-	-	-	-
Japan	(Y)	131.525	-1.105	480 - 570	132.620	130.560	130.96	5.2	129.85	5.1	124.995	5.0	119.4
Malaysia	(M$)	4.6050	-0.08	000 - 100	4.7800	4.5570	4.6175	-3.3	4.66	-4.6	4.89	-6.2	-
New Zealand	(NZ$)	1.7496	-0.0114	486 - 507	1.7507	1.7486	1.7527	-2.1	1.7581	-1.9	1.7769	-1.6	-
Philippines	(Peso)	44.7000	-0.225	500 - 500	44.8000	43.8000	45.295	-16.0	46.396	-15.2	51.8285	-15.9	-
Saudi Arabia	(SR)	3.7525	-0.0003	520 - 530	3.7530	3.7515	3.7534	-0.3	3.7558	-0.4	3.765	-0.3	-
Singapore	(S$)	1.7735	-0.008	720 - 750	1.7860	1.7020	1.811	-25.4	1.8435	-15.8	1.9135	-7.9	-
South Africa	(R)	4.9390	-0.0045	375 - 405	4.9485	4.9260	4.9815	-10.3	5.0555	-9.4	5.3515	-8.4	-
South Korea	(Won)	1809.00	+21.5	600 - 200	1820.00	1790.00	-	-	-	-	-	-	-
Taiwan	(T$)	34.1260	-0.236	050 - 470	34.3010	34.0500	34.137	-0.4	34.1585	-0.4	34.2385	-0.3	-
Thailand	(Bt)	54.2250	+0.75	500 - 000	54.6000	52.1000	54.64	-9.2	55.275	-7.7	57.725	-6.5	-

† SDR rate per $ for Jan 8. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jan 7. Base average 1990=100
The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

January 9	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.75	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.75	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.60	-	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.60	-	3.30
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	6	[illegible]	5	-	-	6.75
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.75
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	5.50	6.23
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	5.50	6.17
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	4	-	2.75	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.75	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
$ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.39	5.42	5.47	5.50	-	-	-
week ago	-	5.39	5.54	5.60	5.72	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Dy).

EURO CURRENCY INTEREST RATES

Jan 9	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.44	94.52	+0.05	94.53	94.37	141,934	520,819
Jun	94.49	94.61	+0.41	94.63	94.43	163,081	426,981
Sep	94.50	94.64	+0.26	94.66	94.43	107,273	295,109

US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.24	95.36	+0.11	95.37	95.18	1,558	7,689
Jun	95.24	95.42	+0.18	95.26	95.23	98	1,720
Sep	-	95.39	+0.15	95.24	-	10	40

All Open Interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jan 9		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.46	16.22	4.847	1.944	4763	5.463	19.90	495.8	410.9	21.29	3.932	1.649	3.790	2.663	350.2	2.454
Denmark	(DKr)	54.18	10	8.790	2.626	1.053	2581	2.960	10.78	268.6	222.6	11.54	2.130	0.893	2.054	1.443	189.8	1.330
France	(FFr)	61.64	11.38	10	2.988	1.198	2936	3.367	12.26	305.6	253.3	13.12	2.424	1.016	2.336	1.641	215.9	1.513
Germany	(DM)	20.63	3.808	3.347	1	0.401	982.7	1.127	4.105	102.3	84.77	4.392	0.811	0.340	0.782	0.549	72.25	0.506
Ireland	(I£)	51.45	9.498	8.347	2.494	1	2451	2.811	10.24	255.1	211.4	10.95	2.023	0.848	1.950	1.370	180.2	1.263
Italy	(L)	2.099	0.387	0.341	0.102	0.041	100	0.115	0.418	10.41	8.626	0.447	0.083	0.035	0.080	0.056	7.352	0.052
Netherlands	(Fl)	18.31	3.379	2.970	0.887	0.356	872.0	1	3.642	90.76	75.22	3.897	0.720	0.302	0.694	0.487	64.11	0.449
Norway	(NKr)	50.28	9.276	8.154	2.436	0.977	2394	2.745	10	249.2	206.5	10.70	1.976	0.829	1.905	1.338	176.0	1.233
Portugal	(Es)	20.17	3.723	3.272	0.978	0.392	960.8	1.102	4.013	100	82.88	4.294	0.793	0.333	0.765	0.537	70.64	0.495
Spain	(Pta)	24.34	4.492	3.948	1.180	0.473	1159	1.329	4.842	120.7	100	5.181	0.957	0.401	0.922	0.648	85.23	0.597
Sweden	(SKr)	46.97	8.669	7.621	2.277	0.913	2237	2.566	9.346	232.9	193.0	10	1.847	0.774	1.780	1.251	164.5	1.153
Switzerland	(SFr)	25.43	4.694	4.126	1.233	0.494	1211	1.389	5.060	126.1	104.5	5.414	1	0.419	0.964	0.677	89.07	0.624
UK	(£)	60.65	11.19	9.839	2.940	1.179	2889	3.313	12.07	300.7	249.2	12.91	2.385	1	2.299	1.615	212.4	1.488
Canada	(C$)	26.38	4.869	4.280	1.279	0.513	1257	1.441	5.249	130.8	108.4	5.617	1.037	0.435	1	0.703	92.40	0.647
USA	($)	37.56	6.931	6.093	1.820	0.730	1789	2.052	7.472	186.2	154.3	7.995	1.477	0.619	1.424	1	131.5	0.922
Japan	(Y)	28.55	5.270	4.633	1.384	0.555	1360	1.560	5.681	141.6	117.3	6.079	1.123	0.471	1.082	0.760	100	0.701
Ecu	-	40.75	7.521	6.611	1.975	0.792	1941	2.226	8.108	202.0	167.4	8.676	1.602	0.672	1.545	1.085	142.7	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Mar	0.5514	0.5507	-0.0001	0.5554	0.5498	21,454	107,671
Jun	0.5566	0.5532	-0.0002	0.5566	0.5525	91	3,295
Sep	-	0.5554	-0.0004	0.5560	-	31	1,633

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Mar	0.6838	0.6821	-0.0011	0.6871	0.6805	11,154	57,893
Jun	0.6890	0.6888	-0.0011	0.6895	0.6880	17	999
Sep	-	0.6954	-0.0011	-	-	2	1,102

JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Mar	0.7610	0.7635	+0.0033	0.7729	0.7602	31,495	93,246
Jun	0.7765	0.7733	+0.0033	0.7795	0.7745	35	2,173
Sep	0.7900	0.7829	+0.0033	0.7900	0.7900	10	326

STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Mar	1.6080	1.6058	-0.0004	1.6198	1.6064	9,659	34,432
Jun	1.6060	1.5994	-0.0008	1.6060	1.6000	17	1,310
Sep	-	1.5924	-0.0008	1.5980	-	2	5

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Jan	PUTS Feb	PUTS Mar
1.630	0.39	1.28	1.87	2.04	3.03	3.89
1.640	0.25	0.96	1.52	2.78	3.77	4.54
1.650	0.13	0.71	1.23	3.65	4.51	5.24

Previous day's vol., Calls 672 Puts 1,149 . Prev. day's open int., Calls 28,338 Puts 22,599

PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Jan	PUTS Feb	PUTS Mar
0.545	0.62	1.05	1.35	0.17	0.51	0.73
0.550	0.33	0.77	1.06	0.37	0.73	0.95
0.555	0.15	0.55	0.83	0.68	1.01	1.22

Previous day's vol., Calls 202 Puts 1,253. Prev. day's open int., Calls 8,615 Puts 17,723

UK INTEREST RATES

LONDON MONEY RATES

Jan 9	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate $7\frac{1}{4}$ per cent from Nov 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	$2\frac{1}{2}$	$5\frac{1}{2}$	5	5	$4\frac{3}{4}$

Certs of Tax dep. under £100,000 is $2\frac{1}{2}$pc. Deposits withdrawn for cash $1\frac{1}{4}$pc.
Ave. tender rate of discount on Jan 9 6.8939pc. ECGD fixed rate Stg. Export Finance. Make up day Dec 31, 1997. Agreed rate for period Jan 26, 1998 to Feb 24, 1998, Scheme III 8.95pc. Reference rate for period Nov 29, 1997 to Dec 31, 1997, Schemes IV & V 7.709pc. Finance House Base Rate 8pc from Jan 1, 1998

BANK OF ENGLAND TREASURY BILL TENDER

	Jan 9	Jan 2
Bills on offer	£100m	£100m
Total of applications	£540m	£505m
Total allocated	£100m	£100m
Min. accepted bid	£98.280	£98.245
Allotment at min. level	75%	89%

	Jan 9	Jan 2
Top accepted rate	6.8989%	7.0393%
Ave. rate of discount	6.8939%	7.0273%
Average yield	7.0144%	7.1526%
Offer at next tender	£100m	£100m
Min. accept. bid 28 days	-	-

Pound in New York

Jan 9	Close	Prev. close
£ spot	1.6140	1.6135
1 mth	1.6115	1.6110
3 mth	1.6065	1.6065
1 yr	1.5870	1.5867

FT GUIDE to WORLD CURRENCIES
The FT Guide to World Currencies table can be found on the Markets page in today's edition.

BASE LENDING RATES

	%		%		%
Adam & Company	7.25	Exeter Trust Limited	8.25	●Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00	●Smith & Williamson	7.25
●Henry Ansbacher	7.25	●Robert Fleming & Co	7.25	Sun Banking Corp Ltd	7.25
Banco Bilbao Vizcaya	7.25	●Guinness Mahon	7.25	TSB	7.25
Bank of Cyprus	7.25	Habib Bank AG Zurich	7.25	United Bank of Kuwait	7.25
Bank of Ireland	7.25	●Hambros Bank	7.25	Unity Trust Bank Plc	7.25
Bank of India	7.25	Heritable & Gen Inv Bk	7.25	Whiteaway Laidlaw	7.25
Bank of Scotland	7.25	C. Hoare & Co	7.25	Yorkshire Bank	7.25
Barclays Bank	7.25	Hongkong & Shanghai	7.25		
Brit Bk of Mid East	7.25	Investec Bank (UK) Ltd	7.25		
●Brown Shipley & Co Ltd	7.25	Julian Hodge Bank	7.25		
Citibank NA	7.25	●Leopold Joseph & Sons	7.25		
Clydesdale Bank	7.25	Lloyds Bank	7.25		
The Co-operative Bank	7.25	Midland Bank	7.25		
Coutts & Co	7.25	NatWestminster	7.25		
Cyprus Popular Bank	7.25	●Rea Brothers	7.25		
Duncan Lawrie	7.25	Royal Bk of Scotland	7.25		
		Scottish Widows Bank	7.25		

● Members of London Investment Banking Association
* In administration

OTHER STATISTICS

STOCK INDICES

	Jan 9	Jan 8	Jan 7	Jan 6	Jan 5	1997/98 High	1997/98 Low	Since comp. High	Since comp. Low
FTSE 100	5198.3	5237.1	5224.1	5264.4	5262.5	5264.4	5138.3	5330.8	986.9
FTSE 250	4864.6	4880.0	4869.1	4858.9	4828.7	4880.9	4806.3	4883.8	1379.4
FTSE 250 ex IT	4907.5	4920.1	4908.1	4895.5	4860.5	4920.7	4808.3	4985.8	1378.3
FTSE 350	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap ex IT	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Share	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Jan 9	Jan 8	Jan 7	Jan 6	Jan 5	1997/98 High	1997/98 Low	Since comp. High	Since comp. Low
FTSE Fledgling	1273.92	1273.95	1271.81	1271.48	1267.98	1273.95	1265.77	1348.52	31.14
FTSE Eurotrack 100	2759.51	2785.66	2791.45	2778.94	2773.36	2791.45	2709.39	2794.86	900.45
FTSE Eurotrack 200	2753.24	2785.65	2796.30	2790.48	2786.41	2796.30	2734.92	2796.30	938.62
FT 30	3321.8	3375.2	3359.9	3391.2	3373.9	3391.2	3321.6	3490.3	49.4
FT Govt Securities	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT Fixed Interest	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE Gold Mines	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1997/98 High	1997/98 Low	Stock	Closing price p	+or-
98	Nil	28/1	3pm	1/4pm	Caluna	1/4pm	

pm premium.

BANK RETURN

BANKING DEPARTMENT — Wednesday January 7, 1998 — Increase or decrease for week

[illegible]

ISSUE DEPARTMENT

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FTSE GOLD MINES INDEX

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS & TEXT

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Cont.

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PAPER, PACKAGING & PRINTING - Cont.

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line
Weather Action		73[illegible]	-9.8	-	-	4.92	-	2244
Weeks Group	♣†	5	--	0.1	5.2	6.70	30.6	1258
West 175 Ents	♣	70	--	-	-	2.87	-	1616
West Bromwich Albion		£145	--	-	-	18.8	-	1851
Western Select		13[illegible]	7.9	-	-	5.72	1'95	4481
Westmount Energy	♣	111[illegible]	-1.9	-	-	12.5	-	5413
Whitecroft	♣	89[illegible]	-3.2	-	-	4.30	-	3885
Winchester		69[illegible]	-4.1	-	-	8.55	-	5193
World Telecom		195	--	-	-	33.8	-	1212
XL Comms		5[illegible]	-8.0	-	-	4.83	-	1384
Xavier Computer		7[illegible]	-3.2	-	-	4.50	-	1684
Yeoman		60[illegible]	-2.3	-	-	4.15	-	-
Zergo Hldgs	⚲	217[illegible]	--	-	-	20.0	-	1184
Zicor Mining		7	16.7	-	-	1.81	-	1302

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the SE Official List.

AMERICANS

	Notes	Price £	Wk% ch'nge	Div gross	Mkt cap£m	Last xd	City line
AT & T US$		38[illegible]xd	4.2	$1.32	62,673	29.12	-
Abbott Labs US$		41[illegible]	5.1	108c	32,221	10.10	-
Amer Express		51[illegible]	-4.6	90c	25,236	1.10	2085
Ameritech US$		49[illegible]	2.0	$2.26	29,335	27.8	-
Anheuser-Busch US$		26[illegible]	0.9	$1.04	13,856	6.11	-
BankAmerica US$		40[illegible]xd	-8.5	$1.22	33,112	17.11	1744
Bankers Trust NY US$		64	-6.3	$4.00	5,054	25.9	-
Bell Atlantic US$		53[illegible]	-2.5	$3.08	23,525	8.10	-
BellSouth US$		35[illegible]	3.0	$1.44	34,834	7.10	-
Bethlehem Steel US$	♥	526[illegible]p	0.4	-	601.7	2'93	-
CPC US$		63	-4.0	$1.88	9,247	6'98	-
Chase Manhattan US$		64[illegible]	-2.9	$2.48	28,172	2.7	-
Chrysler US$		20[illegible]	-5.7	$1.60	15,422	11.9	-
Citicorp US$		72[illegible]	-5.5	$2.10	35,138	10'96	1774
Colgate-Palm US$		42[illegible]	-4.4	$1.10	12,374	23.10	2184
Data General US$		1079[illegible]p	1.9	-	298.0	-	-
Decora Inds	♥	46[illegible]p	1.9	-	16.5	-	-
Dun & Brad US$		20[illegible]	8.1	$0.88	3,459	18.11	-
Eaton US$		56[illegible]	3.6	$1.76	4,343	30.10	2410
Echlin Income US$		22[illegible]	7.5	90c	1,329	7.10	-
Ford Motor US$		27[illegible]	-6.1	$1.68	31,378	17.11	2615
General Host	♥	336[illegible]p	3.1	6c	82.2	12.3	-
Gillette US$		61[illegible]	1.4	86c	27,424	10'96	2585
Hasbro US$		18[illegible]	2.7	32c	2,518	29.4	-
Honeywell US$		42	0.9	$1.12	5,427	25.11	-
Ingersoll-Rand US$		23[illegible]	-3.0	60c	3,953	4.11	-
Lowe's US$		28[illegible]	-3.8	22c	4,571	16.7	-
Merrill Lynch US$		41[illegible]	-7.0	$0.80	14,509	5.11	-
Morris (Philip) US$	h	25[illegible]	4.8	$1.60	70,123	13.3	-
Nationsbank US$	♣	37[illegible]	2.0	$1.52	35,942	3.12	-
Pall US$		12[illegible]	1.9	56c	1,477	18.10	-
Pennzoil US$		39[illegible]	-2.2	$1.00	1,885	25.11	-
Quaker Oats US$		32[illegible]	0.3	$1.14	4,385	17.9	-
Rep NY US$		67[illegible]	-3.0	$1.84	3,573	11.9	3814
Sears, Roebuck US$		28[illegible]	2.9	$0.92	11,079	27.8	-
Tenneco US$		24[illegible]	2.0	$1.20	4,206	19.11	-
Texaco US$		37[illegible]	1.9	$1.80	19,608	5.11	-
Waste Management US$		15[illegible]	-8.1	60c	7,421	15.9	4439
Woolworth US$	♥	12[illegible]	2.5	-	1,694	1'93	-

CANADIANS

	Notes	Price £	Wk% ch'nge	Div gross	Mkt cap£m	Last xd	City line
Bk Montreal C$		25[illegible]	0.1	$1.76	7,148	5.11	1029
Bk Nova Scot C$		28[illegible]	0.8	$1.48	6,535	1'97	1017
BC Gas	♥	1218[illegible]p	3.2	Q$1.08	548.4	14.8	-
BCE C$		20[illegible]	1.8	$1.36	13,089	11.9	-
Barrick Gold		9[illegible]	-13.5	18c	3,651	28.5	-
Can Imp Bk C$		18[illegible]	-9	$1.20	7,749	25.9	1037
Can Pacific 4pc Deb		60	----	Q4%	28.1	8.12	-
Echo Bay	♥	137p	-10.4	3[illegible]c	191.0	12'96	1070
Gulf Can C$	♥	348p	-18.1	-	588.6	3'93	-
Hawker Sid C$	♥	1[illegible]	0.4	-	8.80	8'96	-
Hudson's Bay C$	♥	12[illegible]	-8.3	72c	762.2	6.10	-
Imperial Oil C$	♥	37[illegible]	-5.1	$2.20	7,171	11'96	-
Inco C$		9[illegible]	-4.7	40c	1,642	17.11	-
Rio Algom	♥	9[illegible]	-7.5	76c	531.0	14.5	-
Royal Bk Canada C$		33[illegible]	3.7	$1.88	10,446	23.10	1180
Toronto-Dom C$		23[illegible]	1.4	1.28c	6,983	15.9	1207
Trans Can Pipe C$	♥	14[illegible]	4.0	$1.16	3,066	28.6	-
Western Star Trucks C$		13[illegible]	1.6	-	152.0	-	-

SOUTH AFRICANS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line
Anglo Am Ind R		£23[illegible]	----	Q555c	ϕ	1,781	26.8	-
Barlow	♣	£5[illegible]	0.1	Q124c	ϕ	1,050	12'96	-
Gold Flds Prop R		112[illegible]	0.4	Q65c	1.5	11.5	1.9	-
SA Brews	†	£14[illegible]	-.1	Q295c	-	4,390	1.12	4113
Standard Bank		£25[illegible]	-2.8	Q434c	-	3,092	25.8	-
Tiger Oats		820xd	1.1	Q154c	ϕ	1,239	8.12	-
Tongaat-Hulett		782½xd	1.9	Q142c	ϕ	748.3	8.12	-

TRADED INDEX SECURITIES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line
FTSE 100 TRANS		£52[illegible]xd	----	-	-	-	24.11	-

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise indicated. For FTSE index constituents and reserves, last trade prices at or prior to market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading Sytstem ("SETS")

Net dividends are shown in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market capitalisations shown are calculated separately for each line of stock quoted.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ‡ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. e Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1997. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1997-98. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; x$ ex capital distribution

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FT Share Service

The following changes have been made to the FT Share Information Service: **Additions: Sytner** (Dist), **Vanguard Medical Wrts** (Pharm), **Northern Recruitment** (SpSv), **Energis** (tele), **Gooch & Housego, Property Asset Hldgs** (AIM). **Deletions: Euro Smaller Co's, Do Wrts, Gen Consolidated Inv Cap, Do Inc, Do Stepped Pref** (InTr), **Woodchester Inv** (SpSv).

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IRELAND (REGULATED)(**)

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OTHER OFFSHORE FUNDS

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of lines of stock	FRIDAY JANUARY 9 1998 — US Dollar Index	%chg since 31/12/97	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/97	Gross Div. Yield	THURSDAY JANUARY 8 1998 — US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX — 52 week High	52 week Low	Year ago (approx)
Australia (74)	198.60	-1.6	180.48	163.45	186.05	202.61	-0.8	3.75	198.23	181.83	166.19	187.22	207.09	243.87	190.41	217.35
Austria (23)	189.41	0.2	173.88	157.47	179.25	178.10	1.4	1.85	191.84	175.97	160.84	181.18	181.04	213.89	175.14	184.71
Belgium (26)	253.90	-0.2	233.08	211.09	240.27	235.14	1.1	2.93	257.44	236.14	215.83	243.13	237.88	263.33	227.32	227.32
Brazil (30)	210.06	-11.9	192.84	174.64	198.79	431.98	-11.6	1.91	223.25	204.78	187.16	210.84	459.34	322.44	184.94	200.13
Canada (122)	201.17	-5.3	184.68	167.25	190.38	207.38	-5.8	1.91	206.79	189.69	173.37	195.30	214.48	233.88	178.27	194.02
Denmark (32)	451.23	0.8	414.24	375.15	427.02	425.39	2.1	1.20	457.25	419.42	383.34	431.84	430.09	484.94	348.27	353.20
Finland (26)	279.83	0.5	256.89	232.64	264.81	323.75	1.7	1.94	287.88	264.06	241.36	271.88	332.38	349.43	243.25	252.33
France (83)	229.97	-3.9	211.12	191.20	217.63	219.80	-2.7	2.42	233.01	213.73	195.36	220.06	222.27	246.23	209.81	212.91
Germany (58)	226.11	-1.4	207.57	187.98	213.98	213.98	-0.2	1.37	232.36	213.15	194.82	219.46	219.46	243.87	184.23	186.52
Hong Kong, China (86)	291.89	-18.2	267.96	242.67	276.23	290.41	-18.2	5.50	304.84	279.62	255.57	287.89	303.11	560.03	291.89	496.21
Indonesia (27)	31.77	-51.9	29.17	26.42	30.07	174.45	-21.7	3.86	29.44	27.01	24.68	27.81	182.43	254.90	29.44	239.03
Ireland (16)	404.73	0.8	371.55	336.49	383.02	416.31	4.9	2.37	410.52	376.56	344.17	387.71	423.31	414.74	316.20	330.42
Italy (63)	122.94	4.5	112.86	102.21	116.34	164.24	5.7	1.49	123.01	112.84	103.13	116.18	164.07	124.06	83.01	86.84
Japan (481)	91.95	-3.5	84.41	76.44	87.01	76.44	-2.4	1.04	92.40	84.76	77.47	87.27	77.47	141.12	91.17	121.83
Malaysia (107)	118.76	-27.8	109.03	98.74	112.39	210.63	-14.5	3.45	119.97	110.05	100.58	113.31	216.47	660.65	118.76	617.61
Mexico (26)	1570.08	-12.9	1441.35	1305.34	1485.84	13876.60	-12.7	1.75	1663.74	1526.10	1394.83	1571.28	14893.37	1901.98	1305.70	1314.49
Netherlands (19)	400.88	-2.2	367.81	333.10	379.18	375.15	-1.1	2.24	406.88	373.22	341.12	384.27	380.16	440.67	326.45	329.28
New Zealand (14)	73.69	-6.6	67.65	61.27	69.74	68.47	-2.0	4.51	74.73	68.55	62.65	70.58	69.88	96.47	73.21	94.26
Norway (36)	298.66	-6.5	274.18	248.30	282.64	302.92	-5.2	2.00	307.86	282.40	258.10	290.75	312.29	374.64	292.29	305.89
Philippines (22)	57.54	-27.5	52.82	47.84	54.46	128.18	-18.7	1.43	62.91	57.70	52.74	59.41	140.84	214.07	57.54	206.03
Singapore (42)	159.25	-29.3	146.19	132.40	150.71	130.15	-25.8	2.46	171.48	157.29	143.76	161.95	140.78	446.01	159.25	428.32
South Africa (43)	249.60	-8.0	229.13	207.51	236.20	269.44	-4.5	3.14	252.89	231.79	211.85	238.65	273.03	370.12	249.60	318.70
Spain (33)	276.24	1.6	253.59	229.66	261.42	322.94	2.9	2.16	277.76	254.79	232.87	262.33	323.90	281.72	206.12	220.75
Sweden (49)	462.43	-1.5	424.51	384.45	437.62	547.34	-0.8	1.90	470.13	431.24	394.15	444.01	558.57	538.94	405.00	428.41
Switzerland (31)	335.62	-1.5	308.11	279.03	317.62	307.26	-0.3	1.09	340.89	312.69	285.79	321.94	310.77	343.44	231.69	236.56
Thailand (39)	14.62	-24.2	13.43	12.16	13.84	30.78	-14.7	9.37	15.97	14.65	13.39	15.08	33.15	103.98	14.62	103.98
United Kingdom (212)	326.18	-1.7	299.44	271.19	308.68	299.44	0.2	3.29	332.18	304.70	278.49	313.72	304.70	337.99	271.72	278.65
USA (640)	378.74	-4.5	347.69	314.88	358.42	378.74	-4.5	1.65	390.22	357.94	327.15	368.54	390.22	401.22	299.79	307.35
Americas (818)	343.40	-4.7	315.24	285.49	324.97	289.78	-4.7	1.68	353.97	324.69	296.76	334.30	298.79	365.75	274.59	281.51
Europe (701)	285.15	-1.4	261.77	237.07	269.85	274.20	0.1	2.34	289.96	265.97	243.10	273.85	278.42	296.25	236.09	237.71
Nordic (147)	406.87	-1.3	373.51	338.27	385.04	420.05	-0.4	1.79	414.69	380.37	347.65	391.63	428.76	464.93	355.77	369.14
Pacific Basin (872)	99.57	-6.0	91.40	82.78	94.22	84.11	-4.5	1.75	100.54	92.22	84.29	94.95	85.64	158.99	99.57	142.34
Euro-Pacific (1573)	176.95	-2.9	162.45	147.12	167.46	155.66	-1.5	2.15	179.53	164.68	150.51	169.55	158.19	209.12	173.55	182.03
North America (762)	367.39	-4.5	337.27	305.45	347.68	367.17	-4.5	1.68	378.50	347.18	317.32	357.46	378.37	389.57	292.34	300.58
Europe Ex. UK (489)	256.58	-1.2	235.55	213.32	242.82	253.67	0.0	1.80	260.70	239.13	218.56	246.21	257.15	267.07	210.66	210.92
Pacific Ex. Japan (391)	172.08	-14.1	157.97	143.07	162.85	178.47	-11.7	4.40	178.86	162.23	148.28	167.03	184.90	320.65	172.08	314.64
World Ex. US (1794)	180.16	-3.3	165.39	149.78	170.49	161.50	-2.0	2.14	183.07	167.92	153.48	172.89	164.41	212.89	176.94	184.64
World Ex. UK (2222)	236.38	-4.2	217.00	196.52	223.70	216.65	-3.7	1.72	242.05	222.03	202.93	228.60	222.10	252.69	211.16	218.43
World Ex. Japan (1953)	320.02	-3.9	293.78	266.06	302.85	316.44	-3.4	2.00	328.28	301.13	275.22	310.04	324.59	344.35	271.90	276.01
The World Index (2434)	243.98	-3.9	223.97	202.84	230.89	224.07	-3.3	1.89	249.66	229.02	209.32	235.80	229.52	268.47	216.61	223.55

CONSTITUENT CHANGE WITH EFFECT 12/1/98: Deletion: Barnett Banks (USA). CONSTITUENT CHANGES DURING THE WEEK ENDING 9/1/98: Addition: Ayala Land (Common) (40% weighting) (Large Cap) (Philippines). Deletion: Ayala Land 'B' (Philippines). Name changes: China Light & Power to CLP Holdings (Hong Kong) and Harrison & Crosfield to Elementis (UK).

4 pm close January 9

NEW YORK STOCK EXCHANGE PRICES

1997/98 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
- A -										
40 13/16	24 1/4	AAR	0.48	1.2	31	1309	d41	40 7/16	40 3/4	[illegible]
56 13/16	33 1/8	AMP	1.04	2.7	29	5951	41 1/4	38 1/16	38 1/2	-2 1/2
133 3/4	78 1/4	AMR			9	7778	[illegible]	123 1/16	125	-5 3/8
37 7/8	19	ASA	1.20	6.1	13	418	20	19 1/4	19 1/2	[illegible]
68 3/4	49 1/4	AbbtL	1.08	1.6	25	15102	68 1/4	66 7/8	67 1/4	[illegible]
20 1/2	12 1/2	AbitiBl	0.40	3.4	6	2034	12 1/4	d11 3/4	11 3/4	[illegible]
31 1/2	17 3/8	ABM Ind	0.48	1.7	23	249	29 1/4	28 1/2	29	[illegible]
28 5/8	17 3/4	Acclaim			11	152	24 1/2	24 1/8	24 1/8	[illegible]
101 1/4	56 1/8	ACE Ltd x	0.96	1.0	11	1777	95 1/2	93 1/2	94 1/2	[illegible]
11 1/8	10	ACM Gvt In x	0.90	7.9	12	388	u11 1/4	11 1/4	11 1/8	[illegible]
8 5/8	7	ACM GvOpp x	0.63	7.6		444	8 1/4	8 1/8	8 1/4	[illegible]
10 1/2	9 1/4	ACM Man x	0.90	8.7		183	10 1/4	10 1/8	10 1/8	
10 1/8	4 1/4	Acme Elec				61	5	4 1/8	4 1/8	[illegible]
20	8 1/2	Acme Mo				169	9 1/8	8 3/4	8 1/2	-1/2
24 5/8	14	ACNielsn			37	2329	21 1/8	20 1/2	20 1/2	-1 1/16
29 3/4	15 1/4	Acxiom			40	342	17 1/2	17 1/2	17 1/2	[illegible]
25 1/2	19 3/8	Adams Expr	0.55	2.4	1	588	23 1/8	22 7/8	22 7/8	[illegible]
- X - Y - Z -										
87 1/2	51 1/2	Xerox	1.28	1.9	17	16851	71 1/2	67 5/8	68 1/4	-2 1/4
60 3/4	40 1/2	Xtra Corp	0.80	1.4	21	260	59 1/8	58 1/2	58 1/4	[illegible]
27 1/4	20 3/4	Yankee Egy	1.34	5.3	15	81	25 1/4	24 1/2	25 1/8	[illegible]
58	37 7/8	York Inf	0.48	1.3	13	950	39 1/2	d37 1/4	37 1/4	-4 1/2
6 3/4	4	Zapata	0.28	4.3	54	287	6 1/2	6 1/2	6 1/2	[illegible]
13 1/2	5 1/8	ZenithEl				1670	6 1/2	5 1/2	5 1/2	[illegible]
28 1/2	24 5/8	Zenith Nat	1.00	3.9	15	31	25 1/2	25 1/2	25 1/2	[illegible]
8 1/4	7 1/8	Zweb Inc	0.76	9.4		198	8 1/4	8 1/4	8 1/4	[illegible]
32 1/4	17 1/4	Zero	0.12	0.4	19	514	27 1/2	27 1/4	27 3/8	[illegible]
14	10 1/2	ZweigFd x	1.34	9.4		583	13 1/2	13 1/4	13 1/4	[illegible]
9 1/2	8	Zweig Tot x	0.84	8.8		1007	u9 3/4	9 1/2	9 1/2	[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

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NASDAQ

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Jan 9	Jan 8	Jan 7	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Industrials	7580.42	7802.62	7902.27	8259.31 (6/8/97)	6391.69 (11/4/97)	8259.31 (6/8/97)	41.22 (8/7/32)
Home Bonds	105.27	105.27	105.33	105.38 (5/1/98)	101.09 (14/4/97)	105.38 (5/1/98)	54.99 (1/10/81)
Transport	3265.92	3290.64	3331.47	3359.27 (15/10/97)	2272.07 (2/1/97)	3359.27 (15/10/97)	13.23 (8/7/32)
Utilities	262.86	265.10	262.92	272.01 (30/12/97)	209.47 (25/4/97)	272.01 (30/12/97)	10.53 (8/7/32)

DJ Ind. Day's High 7816.06 (7935.45) Low 7513.41 (7733.12) (Theoretical♦)
Day's High 7800.13 (7902.02) Low 7527.26 (7795.15) (Actual♦)

Standard and Poors	Jan 9	Jan 8	Jan 7	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Composite‡	927.69	956.04	964.00	983.79 (5/12/97)	737.01 (2/1/97)	983.79 (5/12/97)	4.40 (1/6/32)
Industrials‡	1077.49	1110.82	1118.58	1146.82 (7/10/97)	865.42 (11/4/97)	1146.82 (12/12/97)	3.52 (30/6/32)
Financial‡	110.65	114.25	115.16	120.89 (8/12/97)	80.75 (2/1/97)	120.89 (8/12/97)	7.13 (4/9/74)
Others							
NYSE Comp.	487.47	501.84	506.18	514.31 (5/12/97)	389.47 (11/4/97)	514.31 (5/12/97)	4.64 (25/4/42)
Amex Comp	659.24	687.56	674.29	721.80 (7/10/97)	541.28 (28/4/97)	721.80 (7/10/97)	524.20 (16/7/96)
NASDAQ Comp	1503.22	1555.54	1561.70	1745.85 (9/10/97)	1201.00 (2/4/97)	1745.85 (9/10/97)	54.87 (3/10/74)
Russell 2000	412.85	425.71	429.70	465.21 (13/10/97)	335.85 (25/4/97)	465.21 (13/10/97)	123.36 (7/12/93)

■ RATIOS

	Jan 2	Dec 26	Dec 19	Year ago
Dow Jones Ind. Div. Yield	1.72	1.79	1.78	2.03
	Jan 7	Dec 31	Dec 24	Year ago
S & P Ind. Div. yield	1.49	1.49	1.55	1.85
S & P Ind. P/E ratio	25.98	26.04	25.05	23.00

US DATA

■ MARKET ACTIVITY

● Volume (million)

	Jan 9	Jan 8	Jan 7
NYSE	750.644	655.671	660.928
Amex	26.827	21.663	26.893
NASDAQ	817.016	851.147	896.828

NYSE	Jan 9	Jan 8	Jan 7
Issues Traded	3,464	3,453	3,458
Rises	560	1,087	1,209
Falls	2,513	1,891	1,794
Unchanged	391	474	455
New Highs	95	117	94
New Lows	169	93	62

■ NYSE TRADING ACTIVITY Volume : 750,644,000

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
AT & T	10,982,500	61	-1¼
Compaq	8,763,800	58½	-2⅛
IBM	8,293,800	100	-4⅛
Chrysler	8,165,300	32⅛	-⅞
Ph Morris	8,142,200	45½	-1⅛
Travelers	5,991,500	47¾	-2½
Bay Ntwork	5,850,800	25⅞	-2⅞
Medpartners	5,728,800	8⅝	-1⅛
Tel Brasil	4,892,100	100¾	-4⅜
Micron Tec	4,685,100	27⅛	-8

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Paragon Tele	6⅛	+⅞	+15.7
PT Tikm	8⅞	+⅞	+15.4
Dept 50	28⅛	+1½	+5.6
Fd Amer Ent	127	+6⅛	+5.4
Downs			
Input/Output	19½	-6¼	-24.6
Cooper Cmrn	47½	-5⅜	-10.1
EM Inc	40½	-4½	-10
ICN Pharm	44⅛	-4⅛	-9.4

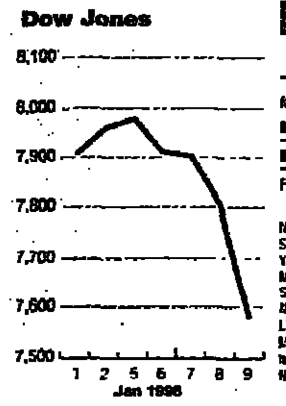
■ NASDAQ TRADING ACTIVITY Volume :817,016,000

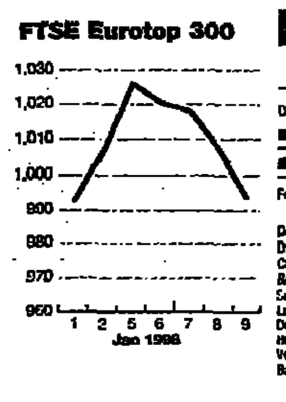
■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Adaptec	29,792,200	21⅛	-14½
Oracle	24,923,300	18¾	-1⅞
Intel	21,992,400	71⅞	-2⅛
Cisco	13,985,400	54⅛	-1⅛
Dell Cmp	13,595,600	83⅛	-3
Appld Matl	12,722,900	28	-1⅛
Three Com	12,477,200	30¾	-2¼
Microsoft	10,928,000	127	-3½
Tele Comm	10,857,800	28⅛	-¾
Worldcom	10,760,400	28⅞	-1⅞

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Mystic Fnl	14⅞	+4⅛	+44.4
Heritage Fnl	13¼	+3¼	+32.5
Spr Vision	10½	+1¾	+20.6
Lightpath	14	+2¼	+19.1
Downs			
Savoir Tech	5	-4⅞	-48.4
Nanophase	6¾	-6½	-47.3
Adaptec	21⅛	-14½	-40
Molecular	10	-6	-37.5


Dow Jones


FTSE Eurotop 300

JAPAN

	Jan 9	Jan 8	Jan 7	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Nikkei 225	14995.10	15019.18	15028.17	20681.1	14775.2	38915.8	85.25

■ TOKYO TRADING ACTIVITY Volume : 399,000,000

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Nip Steel	12,727,000	155	-6
Sumitomo Mtl	9,060,000	149	+10
Yamaichi Scs	8,414,000	1	
Mitsubishi Hvy	6,231,000	434	-24
Sakura Bank	5,795,000	352	-2
Nkk Corp	5,194,000	98	-2
LTCB	5,148,000	192	-2
Mitsubishi Motl	4,182,000	170	-12
Itochu Corp	4,095,000	202	-2
NEC Corp	3,837,000	1460	+10

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Co-Op Chem	74	+11	+17.5
Nihon Mtl	305	+35	+12.9
Copal	355	+40	+12.3
Shimura Kako	146	+15	+11.4
Downs			
Nagasakiya	99	-31	-23.8
Josco	1450	-250	-15.2
Komatsu	552	-93	-14.4
Japan Oil	189	-23	-10.8

FRANCE

	Jan 9	Jan 8	Jan 7	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
CAC 40	2919.31	2954.94	3006.73	3094.01	2256.97	3094.01	984.61

■ PARIS TRADING ACTIVITY Volume : 454,356,480

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Fr Telecom	5,521,094	240.4	-3.6
AGF	1,275,479	313	+0.4
Paribas	1,217,867	503	-19
B.N.P	1,156,036	290	+2.4
Soc Generale	1,148,663	724	-15
Total B	1,055,102	593	-17
Axa-UAP	1,013,095	455.4	-8.1
Usinor	936,303	78.45	-1.2
Elf Aqtne	840,507	635	-10
Rho-PLnc A	578,427	278.7	

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Cecrex	15	+3.9	+35.1
Sofinmora	290	+50	+20.8
Tour Eiffel	298	+37	+14.2
Pier Import	47.9	+4.35	+10
Downs			
Rentid Int	72	-45.7	-38.8
Dynaction	17.1	-5.5	-24.3
Baccarat	530	-54	-9.2
Humm et Cie	960	-95	-9

GERMANY

	Jan 9	Jan 8	Jan 7	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
DAX	4235.94	4347.22	4391.54	4438.93	2848.77	4438.93	631.18

■ FRANKFURT TRADING ACTIVITY Volume : 9,713,935

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Deutsche Bk	1,270,660	114.95	-4.7
Dt Telekom	961,721	32.7	+0.4
Commzbank	842,603	69.9	-0.1
BASF	570,837	83.5	-1.9
Siemens	563,110	110.05	-1.95
Lufthansa	510,380	34.9	-1.1
Dresdner Bk	495,951	82.05	-4.65
Hoechst	403,610	67	-1.25
Veba	444,368	119.65	-0.4
Bayer	432,306	67	-1.99

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
VBH Hldgs	28	+2	+7.7
Marseilles Kin	23	+1.5	+7
Wurst AG	2860	+185	+6.9
Fraktec	48.4	+2.5	+5.7
Downs			
Dyckerhoff	510	-36	-6.6
Lahmeyer	66.5	-4.5	-6.3
Ara Colonia	156	-10	-6
Degussa	91.1	-5.3	-5.5

UK

	Jan 9	Jan 8	Jan 7	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
FTSE 100	5138.3	5237.1	5224.1	5330.8	4056.6	5330.8	986.9

■ LONDON TRADING ACTIVITY Volume : 893,400,000

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
GEC	41,185,820	394½	+2½
Scot Power	28,524,340	528½	-15½
Centrica	17,717,640	95½	+1½
BT	15,821,570	502½	+2
Asda	15,600,610	181½	-½
Burton Grp	14,611,990	142	-¾
Indl Cntl Sv	14,337,800	46½	+1
BTR	11,541,790	180	-3
Emerald Engy	11,933,460	6¼	+¼
Unilever	11,746,960	500	-11½

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Prime Peop	8	+1¾	+28
Skerchley	58	+12	+26.1
Gresham Cmp	43½	+8½	+24.3
ISA Intl	20½	+3	+17.1
Downs			
Yorkclyde	97	-40½	-29.5
Booker	272½	-66½	-19.8
Envromed	6½	-1½	-15
Alliance Res	24	-3½	-12.7

INDEX FUTURES

■ S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	961.00	929.50	-31.70	963.30	926.00	117,008	372,252
Jun	971.00	938.50	-32.40	972.30	941.00	496	9,862
■ Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
Mar	14760.0	15060.0	+80.0	15120.0	14730.0	24,437	168,922
Jun	14840.0	15000.0	-130.0	15020.0	14840.0	29	31,449

Open interest figures for previous day.

■ CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jan	2950.0	2923.0	-35.0	2956.0	2908.0	555	42,320
Feb	2958.0	2931.0	-35.0	2958.0	2932.0	31	2,487
■ DAX							
Mar	4298.0	4269.0	-47.5	4334.0	4255.0	26,512	63,918
Jun	4330.0	4297.5	-36.0	4337.0	4310.0	397	7,899

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jan	2420.00	2389.75	-48.75	2425.00	2386.25	11,799	24,051
Feb	2419.00	2405.00	-44.00	2425.00	2405.00	629	865
■ SOFFEX							
Jan	6349.0	6252.0	-82.0	6350.0	6237.0	6,427	18,507
Mar	-	6270.0	-	-	-	200	202

WORLD MARKETS AT A GLANCE

Country	Index	Jan 9	Jan 8	Jan 7	1997/98 High	1997/98 Low	✣ Yield	✣ P/E
Argentina	General	19991.70	21033.96	21811.31	25771.70 22/10/97	18237.48 2/1/97	3.52	17.6
Blue chips closed nearly 6 per cent lower on Asian-inspired selling. Loss on the week was 15 per cent.								
Australia	All Ordinaries	2603.1	2650.7	2645.9	2779.20 25/9/97	2289.20 28/10/97	3.45	18.2
	All Mining	576.4	590.1	584.1	987.18 24/2/97	541.18 27/11/97		
Stocks exposed to Asia – including ANZ Bank and Coca-Cola Amatil – and the mining sector were worst hit.								
Austria	Credit Aktien	454.05	459.11	467.06	474.42 2/10/97	374.40 9/1/97	2.08	14.6
	Traded Index	1299.21	1315.59	1324.48	1480.49 31/7/97	1130.22 9/1/97		
EVN and Verbund each dropped more than 6 per cent during an edgy day's trading.								
Belgium	BEL20	2443.56	2474.75	2515.55	2621.80 28/7/97	1871.06 2/1/97	2.19	17.1
Generale Bank hardest hit among the financials amid worries about their exposure to Asia.								
Brazil	Bovespa	9118.0	9658.0	9879.0	13617.00 8/7/97	6955.50 2/1/97	0.83	na
Stocks ended 5.5 per cent lower, pulled down by nervous trading on Wall Street and financial turmoil in Asia.								
Canada	TSE 100♦	381.00	394.46	400.72	430.48 7/10/97	342.12 11/4/97	1.9	19.4
	Metals Mins♦	3458.51	3573.83	3731.25	5891.75 10/3/97	3458.51 9/1/98		
	Composite♦	6272.40	6490.70	6590.60	7289.90 7/10/97	5679.39 14/4/97		
	Portfolio§§	3205.28	3327.36	3383.57	3647.89 7/10/97	2846.02 11/4/97		
All 14 sub-indices lost ground as the market suffered one of its worst losses – a fall of 3.3 per cent.								
Chile	IGPA Gen♥	4513.70	4621.87	4712.80	5866.71 4/7/97	4513.70 9/1/98	3.08	14.8
Stocks weakened after the peso failed to gain much ground after an interest rate rise.								
China	Shanghai B	44.97	46.76	48.40	98.21 7/5/97	44.97 9/1/98	1.11	50.8
	Shenzhen B	84.63	88.59	91.67	184.20 6/5/97	84.63 9/1/98		
Shanghai hard currency B shares touched a record intraday low as the regional turmoil continued to take its toll.								
Colombia	IBB	1428.75	1429.03	1431.46	1533.72 16/10/97	844.41 2/1/97	na	na
Stocks moved lower on Asian woes, in line with other markets in the region.								
Czech Republic	PX 50	474.5	480.8	484.8	629.60 25/2/97	468.50 1/12/97	na	na
Broad market weak in thin day's trade.								
Denmark	CopenhagenSE	688.15	699.72	700.19	708.69 6/1/98	470.14 2/1/97	1.22	22.4
Shares fell prey to profit-taking after their sharp rise over the Christmas and new year period.								
Egypt	Cairo SE Gen	(c)	360.86	391.49	392.23 6/1/98	- -	na	na
In Sunday trading, Cairo SE Gen closed 0.2 down at 3,603.4.								
Finland	HEX General	3348.23	3426.17	3463.25	3880.81 22/10/97	2483.28 2/1/97	2.33	14.3
Market weak as investors awaited today's earnings report from Nokia's US rival, Motorola.								
France	SBF 250	1912.85	1932.36	1957.01	2033.43 31/7/97	1533.18 2/1/97	2.43	17.8
	CAC 40	2919.81	2954.94	3006.73	3094.01 3/10/97	2256.97 2/1/97		
France Telecom moved ahead as investors sought the defensive merits of the telecoms sector. Broad trend was downwards.								
Germany	FAZ Aktien	1384.82	1416.33	1422.48	1481.44 31/7/97	988.21 2/1/97	1.39	21.1
	Commerzbank	4067.10	4154.50	4174.90	4336.78 31/7/97	2875.88 2/1/97		
	DAX‡	4235.94	4347.23	4391.54	4438.93 31/7/97	2848.77 2/1/97		
Market finished near the day's lows in spite of a slightly firmer dollar.								
Greece	Athens SE	1480.63	1487.06	1523.47	1794.14 8/10/97	954.54 2/1/97	3.05	15.7
Banks remained weak, hurt by high rates and impact on profitability from expected shift in accounting standards.								
Hong Kong	Hang Seng	8894.64	9254.53	9538.61	16673.30 7/8/97	8894.64 9/1/98	4.18	9.1
	HSCC Red Chip	1235.22	1315.17	1440.16	4110.85 27/8/97	1235.22 9/1/98		
Rising local interest rates added to the effects of falling regional markets to send shares sharply lower.								
Hungary	Bux	8001.87	8218.14	8347.94	8483.80 6/8/97	4291.30 6/1/97	na	na
Sharp falls in some leading issues, including telecom Matav which fell 5.8 per cent.								
India	BSE Sens.	3530.30	3598.16	3683.31	4548.02 5/8/97	3225.24 2/1/97		
	Crisil 500	648.50	664.90	680.74	843.28 5/8/97	615.29 12/12/97	na	na
Weakness exacerbated by Moody's decision to consider a downgrade of sovereign and commercial debt.								
Indonesia	Jakarta Comp.	342.97	347.11	394.24	740.83 8/7/97	338.53 15/12/97	3.41	9.8
Rebounding rupiah was reflected in the broader market though sharp falls in Indosat and Indofood dragged the index lower.								
Ireland	ISEQ Overall	4220.84	4276.33	4303.84	4303.84 7/1/98	2725.07 2/1/97	2.06	20.7
Banks and industrials fell on profit-taking after a week of unprecedented gains.								
Israel	Mishtanim 100	(c)	283.48	286.08	311.76 6/8/97	214.15 2/1/97	na	na
In Sunday trading, Mishtanim 100 closed 10.51 down at 272.97.								
Italy	BCI Comit. 30	262.33	261.50	264.66	284.66 7/1/98	155.74 2/1/97	1.72	22.7
	Banca Com Ital	1101.41	1112.86	1125.99	1125.99 7/1/98	680.42 2/1/97		
	Mibtel General	17680.0	17631.0	17839.0	17839.00 7/1/98	10488.00 2/1/97		
Shares closed higher against broad trend seen elsewhere in Europe, as fresh liquidity continued to pour into market.								
Japan	Nikkei 225	14995.10	15019.18	15028.17	20681.10 16/6/97	14775.20 29/12/97	0.98	40
	Nikkei 300	230.71	233.74	234.33	303.71 29/7/97	227.05 22/12/97		
	Topix	1149.19	1163.20	1163.79	1580.28 25/6/97	1130.00 22/12/97		
	2nd Section	1193.31	1198.24	1201.47	1848.25 30/6/97	1160.55 24/12/97		
A report that the government would consider making a Y2,000bn one-off income tax cut failed to boost shares.								
Jordan	Amman SE	(c)	(c)	167.93	168.57 5/1/98	- -	na	na
In Saturday trading the Amman index closed 0.55 down at 167.37. On Sunday it closed 0.11 down at 167.26.								
Malaysia	KLSE Comp.	491.80	507.16	521.00	1271.57 25/2/97	491.80 9/1/98	3.52	8.5
Shares continued their downward path as falls in regional markets and ringgit uncertainties kept buyers at bay.								
Mexico	IPC	(u)	4837.18	4942.91	5369.48 21/10/97	3359.46 2/1/97	1.24	14.3
Market dived 5.98 per cent, largest drop in percentage and points terms since October.								
Morocco	CASA	(u)	670.23	667.88	689.75 23/4/97	451.98 3/1/97	na	na
Netherlands	CBS TtlRtnGen	1070.2	1084.2	1091.4	1184.60 7/8/97	730.80 2/1/97	2.12	21.5
	CBS All Shr	613.5	621.5	625.7	684.40 7/8/97	428.00 2/1/97		
Early losses pared as dollar recovered its poise.								
New Zealand	Cap. 40	2269.28	2307.81	2329.31	2635.48 22/10/97	2182.01 28/10/97	4	18.2
Forestry shares tumbled after a sharp fall in pulp and paper stocks in the US overnight.								
Nigeria	SE All-Share	6433.16	6427.84	6426.25	6433.16 9/1/98	- -	na	na
Norway	Oslo SE Ind	1996.82	2054.75	2079.04	2287.56 23/10/97	1639.03 2/1/97	1.92	13.5
Broad market led down by sharp fall in engineer and shipbuilder Kvaerner on worries about its Asian exposure.								
Pakistan	Karachi SE	(u)	1660.01	1671.92	2067.98 22/10/97	1341.31 7/1/97	na	na
Closed for Ramadan.								
Peru	Lima Gen	1671.81	1700.22	1730.87	2269.40 10/7/97	1428.70 2/1/97	na	na
Market ended week with sharp losses on Asian concerns.								
Philippines	Manila Comp	1518.00	1655.85	1747.34	3447.60 3/2/97	1518.00 9/1/98	1.55	10
Tumbled to 57-month low as fears of an impending economic slowdown gain credence.								
Poland	WIG	14066.6	14295.3	14305.5	18339.40 18/2/97	13619.80 22/12/97	1.75	10.7
PBR up 9.3 per cent on news that Bayerische Landesbank wanted a 51 per cent stake.								
Portugal	BVL 30	3958.76	3978.58	3980.45	3992.42 6/1/98	2165.57 2/1/97	1.47	28.7
	PSI 20	9228.17	9274.33	9258.25	9294.05 6/1/98	5152.34 2/1/97		
Banco Espirito Santo bucked trend and hit 33-time high on optimism over its performance.								
Russia	RTS	372.46	382.06	(c)	571.66 6/10/97	213.38 6/1/97	na	na
Weak as Asian worries overturned gains related to news that the IMF had approved fresh funding from Russia's $9.2bn loan.								
Singapore	SES All-S'pore	351.01	370.16	380.34	573.03 17/2/97	351.01 9/1/98	2.68	12.7
	Straits Times	1176.35	1270.70	1368.06	2271.88 20/1/97	1176.35 9/1/98		
Indonesian worries sent shares sharply lower. Properties and banks with Indonesian exposure were sold heavily.								
Slovakia	SAX	177.42	169.85	177.21	208.84 21/3/97	164.91 22/7/97	na	na
Shares rebounded after dull week on gains by oil refiner Slovnaft and steel-maker VSZ.								
South Africa	JSE Gold	726.3♥	744.0	730.8	1588.10 27/2/97	670.10 5/12/97	3.23	12.2
	JSE Indl.	7183.8♥	7263.6	7269.1	8314.20 7/8/97	7137.90 11/12/97		
Worries over Asia and bullion price left broad market lower.								
South Korea	KoreaCmpEx**	414.00	423.96	409.42	792.29 17/6/97	350.68 12/12/97	2.84	11.5
In Saturday trading, buying from foreign investors boosted the Korea CmpEx and it closed 26.78 at 440.78.								
Spain	Madrid SE	650.83	651.72	656.59	660.07 5/1/98	434.54 2/1/97	2.25	22.1
Strong blue-chip performance, particularly in the banking sector, helped to resist downward pull.								
Sri Lanka	CSE All Share	705.00	701.30	710.50	869.70 31/7/97	608.70 2/1/97	na	na
Edged higher in dull trade as most domestic retailer investors were sidelined ahead of upcoming plantation issues.								
Sweden	AffarsvardsGen	2974.8	3029.6	3042.1	3315.80 7/8/97	2378.50 2/1/97	1.76	21.8
Forestry sector lost ground after Morgan Stanley lowered its sector forecast.								
Switzerland	SMI Index	6251.8	6330.2	6390.0	6397.00 5/1/98	3922.90 7/1/97	1.1	24.2
	SPI General	3893.94	3934.81	3972.97	3972.97 7/1/98	2506.22 6/1/97		
Derivatives-related selling took toll on prices.								
Taiwan	WeightedPr**	7737.30	7778.16	7835.56	10116.80 26/8/97	6844.76 6/1/97	1.11	22
Steep declines in overseas markets overshadowed the slightly firmer Taiwanese dollar.								
Thailand	Bangkok SET	349.67	360.17	370.31	858.97 22/1/97	284.28 24/12/97	8.27	8
Persistent concerns of capital raising by banks, a weak baht and falling regional markets continued to weigh on stocks.								
Turkey	IMKB Nat. 100	3587.11	3590.11	3682.60	3711.40 5/1/98	895.00 2/1/97	1.58	20.9
Shares weak on expectations of verdict soon on legal challenge to shut down main opposition Welfare party.								
Venezuela	IBC	7535.29	7925.26†	8273.77	10817.10 17/10/97	6061.99 12/3/97	na	na
Stocks closed sharply lower amid global sell-off and falling international oil prices.								
Zimbabwe	ZSE Industrial	7989.27	7909.86	7833.69	12092.00 5/8/97	6601.51 18/12/97	na	na
WORLD	FT/S&P World(S)	243.98	249.68	251.69	268.47 7/10/97	216.81 14/4/97	na	na
	MS Capital IntS	913.6*	923.2	930.2	981.80 31/7/97	794.60 14/4/97	na	na
CROSS-BORDER	Eurotrack 100	2752.51	2785.65	2791.45	2794.80 7/8/97	1893.80 2/1/97	na	na
	FTSE E100	2287.28	2325.09	2344.77	2377.06 5/1/98	1582.98 2/1/97	na	na
	HSBC JC Drgn	(u)	211.42	221.58	434.83 6/8/97	221.58 7/1/98	na	na
	ING Brngs Emrg	132.53	135.22	138.91	198.81 9/7/97	132.53 9/1/98	na	na

** Sat Jan 3 : Taiwan Weighted Price 8159.11; Korea Comp Ex 385.49. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ XETRA-DAX after-hours index: Jan 9 - 4237.75 -55.69 † Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock, whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation. ✣ Yields and P/E ratios are based on Datastream Total Market Indices. § Midsession.

NASDAQ NATIONAL MARKET

4 pm close January 9

NASDAQ NATIONAL MARKET

AMEX PRICES

4 pm close January 9

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of *companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members.*

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$2.38	-0.125	2000	8.25	2.375	Innogenetics	US$29.75	+2.5	171329	27.26	9.875
Algol	ITL13350		2000	13350	12450	Integr. Surg. Syst.	DEM7.60	-0.4	0	12.1	7.4
Artwork Systems	US$7.125		5605	11.125	5.875	Lernout & Hauspie	US$47.38	+1.25	101256	58.625	25
Cheminex	FFr10.5		185500	18	10	Melexis	US$7.75		85570	9.125	7.1975
City Bird Holding	US$7.9375		2500	8.25	6.8125	Mercer Int'l	US$8.63	-0.125	0	12.875	8
Debonair Holdings	GBP3.30	-0.05	1000	7.15	2.85	NTL	US$28.125		0	29	20.5
Dr Solomon's *	US$32.38	+0.625	0	36.125	17	Option Int'l	US$12		19955	12.125	10.375
EDAP TMS *	US$6.94	-0.063	0	9.125	6.5	PixTech	US$2.88	+0.125	2000	6.125	2.125
ESAT Telecom *	US$14.25		0	15.25	13.25	Schoeller-Bleckmann	Sch1343	-22	450	1692	900
Espace Prod. Int.	FFr90.45		0	117	88.83	Topcall Int'l	Sch6088	+25	238	6108	3065
Esprit Telecom *	US$10.875		600	12.25	4.875	Turbodyne Technol.	US$3.33	-0.2	0	6.25	2.55
Gruppo Formula	ITL17300		2900	22800	16400						

Prices for 9/1/98. Please note that mid prices are now used to calculate highs and lows. Information about EASDAQ can be found on the Web site at HTTP://WWW.EASDAQ.be EASDAQ offices are located in Brussels (Tel. 32-2 / 227 66 20) and in London (Tel. 44-171 / 489 9990)

FT GUIDE TO THE WEEK

MONDAY 12

Japan-EU summit

British prime minister Tony Blair holds talks with Japan's prime minister Ryutaro Hashimoto to discuss how to promote bilateral relations. They will also hold a Japan-EU summit meeting together with Jacques Santer, president of the European Commission, to talk about economic and environmental issues and joint projects for developing nations. During his first visit to Japan as prime minister, Mr Blair will also meet government leaders and emperor Akihito and attend an opening ceremony of the 1998 British festival in Japan.

Meeting the governors

Governor of the Bank of Korea Lee Kyung-shick visits Switzerland for a meeting with central governors of the Bank for International Settlements. Lee's visit marks the fourth leg of a European tour that has already taken in Britain, France and Germany designed to drum up support for a *rollover of his country's short-term* debts. Korea is facing a massive repayments crunch with $30bn in debt due by the end of January and another estimated $20bn due in February and March.

Japanese issues

Japan's regular diet (parliament) session begins with prime minister Ryutaro Hashimoto's policy speech on economic and financial issues. During the 150-day session, major issues expected to be discussed are the fiscal 1997 supplementary budget to *implement a two trillion yen special* income tax cut, fiscal system stabilisation bills and the fiscal 1998 budget plan.

Dai-Ichi Kangyo case

Tokyo district court holds the first hearing in the case of Tsuneo Uchida, a former vice president of Dai-Ichi Kangyo Bank, who is charged with making payoffs to "sokaiya" corporate racketeer Ryuichi Koike. Fellow vice president Ichiro Fujita goes on trial on Wednesday and Tadashi Okuda, the bank's former chairman, on Friday.

IMF talks Turkey

An International Monetary Fund delegation visits Turkey.

European fish

European Union fisheries ministers meet in Brussels.

Cricket

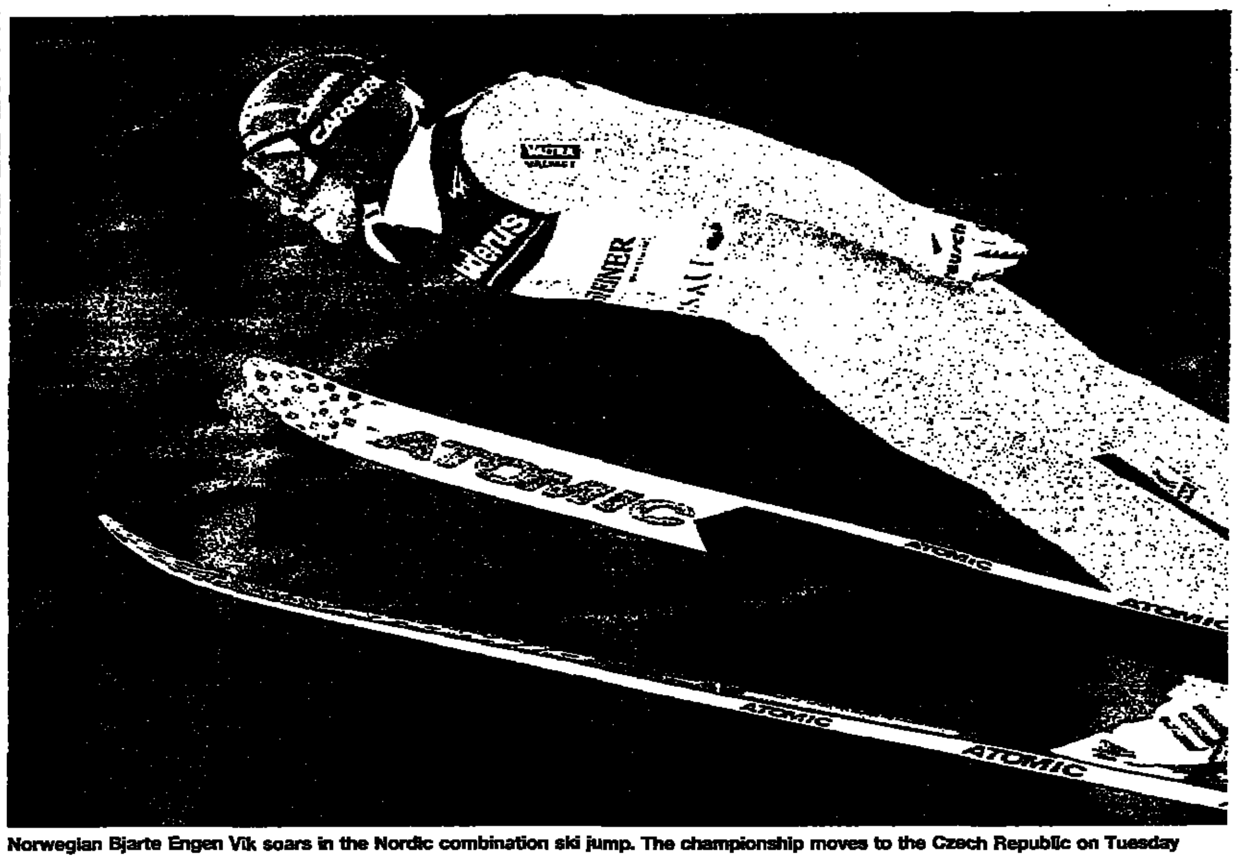
Bangladesh v Pakistan, Independence Cup, Dhaka; Australia A v New Zealand, World Series Cup, Melbourne.

Tennis

Sydney international men's and women's tournaments (to January 18); BellSouth open men's tournament, Auckland (to January 17); Tasmania International women's tournament, Hobart (to January 18).

Holidays

Colombia, Sri Lanka.



Norwegian Bjarte Engen Vik soars in the Nordic combination ski jump. The championship moves to the Czech Republic on Tuesday

TUESDAY 13

Euro-parliament meets

European Parliament plenary session opens: the provisional agenda includes debates on the impact of the single currency on capital markets, the single currency and the consumer, external aspects of European economic and monetary union, new technologies and money, value-added tax on telecommunications, and investment services in securities.

Tokyo visit

Kim Jong-Pil, honorary president of South Korea's United Liberal Democrats, who is widely expected to be the country's next premier, meets Japanese prime minister Ryutaro Hashimoto, finance minister Hiroshi Mitsuzuka and other senior Japanese politicians in Tokyo.

Asia and Europe

European Commission President Jacques Santer delivers the inaugural Asia-Europe lecture to the Asia-Europe Foundation in Singapore, entitled "Asia and Europe: the road from Bangkok to London and beyond".

Winter sports

Alpine skiing: Men's World Cup giant slalom, Adelboden, Switzerland; World Cup snowboarding (two days), Lienz, Austria; World Cup Nordic combined, Harrachov, Czech Republic; World Cup speed skating (two days), Baselga di Pine, Italy.

Inspection

The Japanese finance ministry's financial inspection department, *banking bureau and international* finance bureau meet British offials, led by Michael Foot, executive director responsible for banking supervision at the Bank of England.

Survey

Global Business Outlook.

Holiday

Lithuania.

WEDNESDAY 14

Space walk

Commander of the Russian Mir space station, Anatoly Solovyov, and the resident US astronaut David Wolf are due to go for a spacewalk to retrieve US equipment attached to the ship's exterior.

Cook's tour

Robin Cook, the British foreign secretary, will present the programme of the British presidency for the next six months in a speech to the European Parliament. MEPs will also discuss the implications of introducing a single currency, and their own role in selecting which countries will participate in the first wave. This first session of the parliament for 1998 will also include an examination of two reports on transatlantic relations and a debate on the effectiveness of EU *humanitarian aid. Debt relief for* African, Caribbean and Pacific countries and the harmonisation of laws on drug use will also be debated.

Food standards

A long-awaited British government policy paper on the creation of an independent Food Standards Agency is expected to be published by Jack Cunningham, agriculture minister. The agency will be charged be with rebuilding public confidence in food safety, after the recent BSE outbreak *and a rise in food poisoning incidents.* The FSA's work is expected to cost around £200m ($326m) a year, and is likely to be funded by the food industry itself. The agency will report to the department of health.

Egyptian conference

Arab parliamentarians meet for their the first time since the November 17 tourist massacre at their annual conference in Luxor.

Holiday

Sri Lanka.

Russian return

First session of the Russian state Duma lower house of parliament after a winter break.

THURSDAY 15

Western energy

Energy ministers of the western hemisphere meet in Caracas for a two-day summit to discuss regional energy integration. Investment conditions in the region's energy sectors and opportunities to increase energy self-sufficiency in the hemisphere are the two principal themes of the meeting. The ministers, in the third annual summit, will also discuss finance opportunities for cross-border energy projects, such as gas pipelines or power transmission lines. According to the Latin American Energy Organisation (OLADE), the region's energy projects require some $25bn in capital investment. Several Latin American countries have opened their oil sectors to private sector participation and increased energy integration in recent years. Venezuela has replaced Saudia Arabia as the principal oil supplier to the US and Brazil, while a series of gas pipeline projects are under way between Mercosur countries, Bolivia, and Peru. The summit comes only two months before the presidential hemispheric summit in Santiago, Chile.

UK welfare

Frank Field, the British government minister charged with reforming the *country's creaking welfare system,* will set out his views on the welfare state in a lecture at the right-wing Centre for Policy Studies. The government's programme for modernising welfare will be one of the most contentious domestic political issues of 1998.

Cook's day in the US

Britain's foreign secretary Robin Cook makes a one-day visit to the US where he will hold regular EU-US talks as part of Britain's rotating presidency of the European Union, give a speech to the European Institute and hold *bilateral British-US talks;* he then travels on to Canada.

Golf classic

The Bob Hope Classic, a round of the USPGA tour, opens in Indian Wells, California (to January 18).

Holiday

Japan.

FRIDAY 16

Ruggiero recalls

World Trade Organisation director-general Renato Ruggiero speaks in London on the 50th anniversary of the multilateral trading system.

Cricket

Jamaica v England (to January 19), Jarrett Park, Montego Bay; Sri Lanka v Zimbabwe, second test, Colombo; New Zealand v South Africa, World Series Cup (day-night), Perth; Silver Jubilee, second final, Dhaka.

Holidays

Benin.

SATURDAY 17

Culture capital

Stockholm celebrates its inauguration as the 1998 cultural capital of Europe with the launch of the Archipelago art exhibition at seven different museums across the city. The year-long event – involving more than 1,000 cultural projects – gets fully underway with the opening of the 260sq metre ice pavilion in Stockholm's Kungsträgården park. The temporary home for snow and ice sculptures will be assembled from 200 tonnes of ice. On Saturday evening, King Carl XVI Gustav will host a reception of culutral officials and artists from across Europe, followed by a large fireworks display.

Pushing the envelope

An international festival of hot air balloons is held at Chateau-d'Oex, Switzerland, from where the the Breitling Orbiter 2 circumnavigation attempt is expected to start some time during the week. The festival ends on January 25.

Farm view

Berlin hosts a forum on east-west agriculture in the expanded European Union beyond 2000 with Russian farm minister Viktor Khlystun and German farm minister Jochen Borchert.

Boxing

European middleweight title, Hassine Cherifi v Robert McCracken, Toulouse. British middleweight title, Neville Brown (holder) v Glen Catley; super-middleweight, Richie Woodhall v Gareth Jones, Whitchurch.

Winter sports

Women's World Cup downhill skiing, Kitzbuhel, Austria; World Cup ski jumping, Zakopane, Poland; World Cup speed skating, Innsbruck Women's World Cup events (end).

SUNDAY 18

Motor sport

The Monte Carlo Rally opens the World Rally Championship (to January 21).

Compiled by Roger Beale.
Fax: (+44) (0)171 873 3196.

ECONOMIC DIARY

Other economic news

Monday: The markets will be keenly watching German retail sales during November to see whether the domestic economy is finally taking off. Forecasters, however, predict continued weakness in sales.

Tuesday: The key UK retail price index, excluding mortgages, is likely to have remained comfortably close to its 2.5 per cent target during December. Economists are predicting RPIX to have risen by an annual 2.7 per cent in December, after 2.8 per cent in November.

Wednesday: US retail sales are expected to have ended the year on an upbeat note, with moderate gains expected in the durable and non-durable sectors. After November's 3.8 per cent year-on-year rise, the markets are looking for a similar performance in December.

Thursday: After two strong monthly declines, German wholesale prices in December are expected to have stabilised because of the strong dollar.

Friday: The final release of French third quarter gross domestic product should point towards an annual 2.7 per cent increase.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	Nov overall pers consmr expenditure**	-1.2%	1.1%
Jan 12	UK	Nov industrial production*	0.2%	-0.2%
	UK	Nov industrial production**	1.6%	1.9%
	UK	Nov manufacturing output*	0.2%	-0.2%
	UK	Nov manufacturing output**	1.9%	1.3%
	UK	Dec producer price index input*	-0.8%	-1.9%
	UK	Dec producer price index input**	-8.1%	-8.3%
	UK	Dec producer price index output*	0.2%	-0.1%
	UK	Dec producer price index output**	0.8%	1.0%
Tues	UK	Dec Brit Retail Consort retail survey		1.1%
Jan 13	UK	Dec retail price index*	0.2%	0.1%
	UK	*Dec retail price index***	*3.6%*	3.7%
	US	Dec consumer price index	0.1%	0.1%
	US	Dec consmr prce indx ex-food & energy		0.1%
	US	*Dec Atlanta fed index*		-1.6
	US	Dec *real* earnings		1.4%
	Japan	Nov current account (IMF) not†	Y1.15tn	Y669bn
	Japan	Nov trade balance (IMF)		Y864bn
	Japan	Nov foreign bond investment		Y1.93tn
Wed	UK	Dec unemployment	-20k	-21.1k
Jan 14	UK	Nov average earnings	4.25%	4.25%
	UK	Nov unit wages three month**	2.4%	2.5%
	US	Dec retail sales		0.2%
	US	Dec retail sales ex-auto		0.2%
	US	Dec export price index		Unch

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
	US	Dec import price index		-0.3%
Thurs	US	Initial claims January 10		334k
Jan 15	US	State benefits January 3		2350k
	US	Nov *business inventories*		0.4%
	US	Jan Philadelphia fed index		-1.3
	US	M1 week ended January 5		$9.4bn
	US	M2 week ended January 5		$12.8bn
	US	M3 week ended January 5		$4.0bn
	US	Dec monthly M1		$6.8bn
	US	Dec monthly M2		$22.5bn
	US	Dec monthly M3		$46.9bn
Fri	*France*	*Q3 final gross domestic product****	*0.9%*	*0.9%*
Jan 16	US	Dec industrial production		0.8%
	US	Dec capacity utilisation		83.2%
	US	Jan Michigan *sentiment preliminary*		102.1
	Japan	Dec *broad liquidity***		3.2%
During the week...				
	Germany	Nov retail sales, real not†**	-1.0%	-0.5%
	Germany	Nov retail sales, real†*		0.1%
	Russia	Dec gross domestic product*	1.1%	0.1%
	China	Dec trade balance	$2.5bn	$4.65bn
	Germany	Dec cost of living*, pan Germany	0.2%	0.0%
	Germany	*Dec cost of living**, pan Germany*	*1.8%*	*1.9%*
	Germany	Dec wholesale price index*	-0.1%	-0.7%

*month on month, **year on year ***qtr on qtr, †seasonally adjusted

Statistics, Standard & Poor's MMS.

MONDAY PRIZE CROSSWORD

No.9,578 Set by GRIFFIN

Six bottles of Davys Celebration Champagne for the first correct solution opened and three runner-up prizes of £40 Davys food and wine vouchers redeemable in person or by post. These prizes are available only to winners living in England, Scotland and Wales. Winners with overseas addresses will receive a set of silver-plated place name bases and cards. Solutions by Thursday January 22, marked Monday Crossword 9,578 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday January 26. Please allow 28 days for delivery of prizes.

Name..

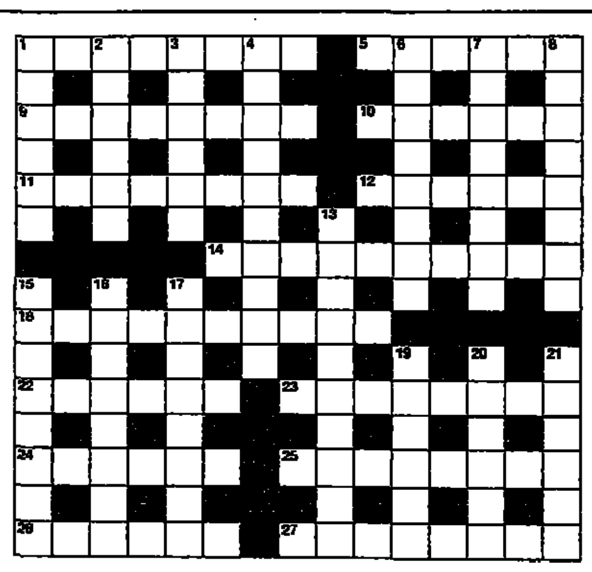
Address..

ACROSS

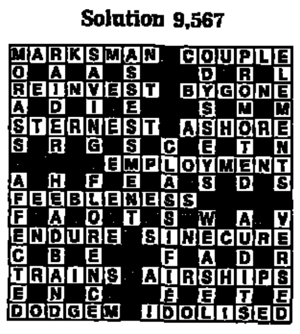
1, 5 Occasionally, between prison sentences .... (4,4,2,4)
9 .... when someone can't get off .... (8)
10 .... it's madness to get caught with someone insane .... (6)
11 .... as he's going around Leeds drunk, regardless (8)
12 They won't eat animal produce in vehicles, for example (6)
14 Newly-wed is to travel in black dress .... (10)
18 .... very happy about crumpled mini being got rid of (10)
22 Being tried but not set off (2,4)
23 Supercilious potholer takes the A51 (8)
24 They give a fellow a ring when he's forgotten hers (6)
25 Little girl with insight causes disagreement (8)
26 Something gardeners use puzzles people (6)
27 Fish salesman's first lecture (8)

DOWN

1, 15 Trip over judge's black box (6,8)
2 Toys assembled by royal seaside resident .... (6)
3 .... spill out of glass with no bottom (6)
4 Principal master bent on avoiding extremes (10)
6 One threatening suicide might be glad one changed direction! (2,1,5)
7 At one motorway climbs hill to see parrot (8)
8, 21 Sorry for using bad language about ex-MC's cheery fun (6,2,6)
13 Anna relied on replacement hormone (10)
15 See 1 down
16 Paid attention and shone, without using force (8)
17 Musician having little time to rest turned and left (8)
19 Some saw Barbara pierced by a sword .... (6)
20 .... I caught naughty Lisa swallowing quartz (6)
21 See 8 down



Solution 9,567



WINNERS 9,567: C.J. Cazalet, London W11; B. Hollingworth, Allestree, Derbyshire; J. Smith, Sittingbourne, Kent; Mrs C. Williams, Clavering, Essex.

JOTTER PAD